Previous File.

P.

IOR: L/P&S/12/126

POLITICAL (EXTERNAL) DEPARTMENT.

P.Z. 492 1935.

SUBJECT:

China :-

Economic Situation

Sheet no 2.

see P.Z. 3592/35. (Sino-Japanese Relations)

This File contains the following papers :—

YEAR.		
1935.	P.Z.	7280 7946 7962 8188 8189 8195 8297 8321 8322 8323
1935.	P.Z.	8324 8325 8347 8439 8594 8739 9118 9372
1936.	P.Z.	18 258 886 1569 1568 1823 2302 2808 2953
1936.	P.Z.	3174 3732 3733 4887 ~~4956~~
1937.	P.Z.	~~2418~~ ~~2719~~ 5259 7020.
19 .	P.	
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19 .	P.	

☞ Papers may be removed from or placed within this File only by the Political Registry.

4987A 3000 12.30

P.

POLITICAL (EXTERNAL) DEPARTMENT.

P.Z.
492
1935.

SUBJECT:

Sino-Japanese Relations
China: Economic Situation

Sheet No 1

see P.Z. 3592/35 (Sino-Japanese Relations)

This File contains the following papers:—

YEAR.												
1935.	P.Z.	492	524	587	653	693	588	670	845	856	914	1023
1935.	P.Z.	1052	1266	1278	1361	1415	1416	1509	1518	1516	1840	
1935.	P.Z.	1706	1952	P.Z. 2002	2183	2214	2215	2330	2392	2433		
1935.	P.Z.	2459	2518	2556	2577	2696	2759	2791	2871	2894		
1935.	P.Z.	2965 A	2895	3017	3030	3158	3159	3181	3107	3305		
1935.	P.Z.	3310	3375	3552	3616	3627	3639	3730	3765	3739		
1935.	P.Z.	3929	3930	4031	4032	4054	4064	4120	4227	4416		
1935.	P.Z.	4435	4636	4761	4870	4942	5225	5249	5321	5334		
1935.	P.Z.	5412	5459	5470	5506	5579	5634	5691	5821	6031		
1935.	P.Z.	6377	6452	6486	6467	6697	6712	6771	6786	7043	6846	

☞ Papers may be removed from or placed within this File only by the Political Registry.

In any further communication on this subject, please quote
No. F. 5068 P/4/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

INDEXED

F. O. 7020 1937

India 3

Put with 29.X

THE Under-Secretary of State for Foreign Affairs presents his compliments to the Under-Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Foreign Office,
23rd Oct., 1937.

P.Z. 5259 - P.Z. 492/37

Reference to previous correspondence:
F.O. Letter No. F. 4688/4/10 of August 10th

Description of Enclosure.

Name and Date.	Subject.
From H.M. Representative. Peking. Despatch No. 930 25th August	Provisional Ordinance for the punishment of offenders impairing National Currency

Secretary, Financial Dept.

To see. J. Jones 28/X

Seen thank you C.T.Ph 29/10

F. O. 5215 1937

REGD. POL. DEPT. 25 OCT 1937 INDIA OFFICE

MAILS BRANCH 25 OCT 1937 INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER No. 743 28 OCT 1937 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Similar letter sent to Co Do Bd

D.O.T.

6130 15588

COPY.

(F 8068/4/10)

No. 830 (106/36/1937)

F.Z. 7020 1937

BRITISH EMBASSY,
PEKING.
25th August 1937.

Copy to:-
No Draft Circular to Consuls.

Sir,

With reference to my despatch No. 652 of the 24th June 1937, I have the honour to enclose (in translation) a copy of the Provisional Ordinance for the Punishment of Offenders impairing National Currency, as published in the National Government Gazette No. 2407 of the 16th July 1937, and promulgated and enforced on the 15th July 1937. It will be observed that this Provisional Ordinance is in effect a revision of the original Provisional Ordinance of 1935, and that the period of its enforcement is two years.

2. Copper coins have been included amongst the forms of currency which it is an offence to smuggle or destroy under the provisions of Articles one and two. The order of Articles one and two of the original Ordinance have been reversed, and a clause has been added to the new Article one making it an offence to melt currency and smuggle the metal out of the country.

3. In Article five (Article four of the original Ordinance) counterfeited or altered currency notes,/

The Right Honourable,
Anthony Eden, M.C., M.P.,
etc., etc., etc.,
FOREIGN OFFICE,
S.W.I.

notes, as well as copper coins, have been included amongst the forms of currency which shall be confiscated when found in the possession of offenders under the Ordinance whether or not they belong to the guilty party.

4. Article four of the revised Ordinance, which makes it an offence to counterfeit or alter currency notes with intent to put them into circulation, is new.

I have, etc.,

(Signed) D.J. COWAN.

In the absence of H.M. Ambassador.

TRANSLATION.

J.A.M.M. 8.8.1937.

L.H.L.

PROVISIONAL ORDINANCE FOR THE PUNISHMENT OF OFFENDERS IMPAIRING THE NATIONAL CURRENCY.

Promulgated and enforced 15th July, 1937 and published in National Government Gazette No. 2407 of 16th July, 1937. (For Original Provisional Ordinance promulgated and enforced 15th July 1935 see National Government Gazette of 16th July, 1935).

ARTICLE 1. Any persons who smuggle silver coins, copper coins, bar silver minted by the Central mint or silver metal in general out of the territorial limits of the Republic of China, with intent to make profit thereby, shall be punished with death or imprisonment for life or for a period not less than seven years and may also be subject to a fine of not less than the amount smuggled and not more than five times its value.

The same shall apply in the case of persons who, with intent to make profit, destroy by melting down silver coins, copper coins or Central mint bar silver and then smuggle the same outside the territorial limits of the Republic of China.

ARTICLE 2. Any persons who destroy by melting down silver coins, copper coins or Central mint bar silver, with intent to make profit thereby, shall be punished by imprisonment for a period not less than one and not exceeding seven years, and may in addition be subject to a fine not exceeding three times the actual amount or value of the material so melted.

ARTICLE 3./

ARTICLE 3. Any persons who counterfeit or alter bar silver minted by the Central mint, or reduce the weight thereof, or utter or with intent to utter collect or deliver the same, shall be punished according to the provisions of the Criminal Code on the subject of offences relating to false currency.

ARTICLE 4. Any persons who, with intent to put into circulation, counterfeit or alter currency notes, shall be punished by imprisonment for life or for a period not less than five years and may in addition be subject to a fine not exceeding ¥5,000. The same shall apply in the case of persons who, with the intention of putting them into circulation collect counterfeited or altered notes.

ARTICLE 5. Silver coins, copper coins, bar silver, silver metal in general, or counterfeited or altered currency notes in the possession of offenders under the four preceding Articles shall be confiscated regardless as to whether it belongs to the guilty party or not.

ARTICLE 6. An attempt to commit an offence under this ordinance shall be punishable.

ARTICLE 7. The period of enforcement of these regulations shall be two years.

ARTICLE 8. This Ordinance shall come into force from the date of promulgation.

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FILE COPY

P. Z. 5259

India 8

Mr R

Parker 10052 1/8

In any further communication on this subject, please quote
No. 7468 F/4/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

THE Under-Secretary of State for Foreign Affairs presents his compliments to the Under-Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Foreign Office,
10th August, 1937.

P.P. 6467/35. P.Z. 492/37

Reference to previous correspondence:
F.O. letter No. F.5730/6/10 of Sept. 12th 1935

Description of Enclosure.

Name and Date.	Subject.
From H.M. Representative Peking. Despatch No. 652 24th June.	Punishment of offenders impairing the National Currency.

INDIA OFFICE 11 AUG 1937 REGD. POL. DEPT.

MAILS BRANCH 11 1937 BURMA OFFICE

ENCLOSURE IN WEEKLY LETTER
NO. 32 12 AUG 1937 Treasury
FROM SECRETARY, POLITICAL & SECRET DEPT. INDIA OFFICE. D. of I.

Similar letter sent to B. of I.

6130 15588 (4)

P. Z.
5259
1937

9

COPY

(F 4688/4/10)

No. 652 (58/36/1937)

Copy to:-
No Draft Circular
to Consuls.

British Embassy,

Peking.

24th June, 1937.

Sir,

6467/25. With reference to Sir Alexander Cadogan's despatch No. 1233 (228/36/1935) of 2nd August, I have the honour to report the publication in the National Government Gazette of 17th June of a Mandate, dated 15th June, extending the period of enforcement of the Provisional Ordinance for the Punishment of Offenders Impairing the National Currency for two years as from 15th July of this year.

2. It will be recalled that this Ordinance was promulgated and came into effect on 15th July 1935 and that under Article six the period of enforcement was originally limited to two years.

I have &c.,

(Signed) H.M. Knatchbull-Hugessen.

The Right Honourable

Anthony Eden, M.C., M.P.,

etc., etc., etc.,

FOREIGN OFFICE.

INDEXED

D.O. 3.

P. Z. 4887 1936

Communications on this subject should be addressed to—

THE UNDER-SECRETARY OF STATE,
DOMINIONS OFFICE,
DOWNING STREET, LONDON, S.W. 1,

and the following number quoted:—

6833/170

Subject: Situation in Iraq.

Public 10552 9/2.

App 4490. 3732. 492/35.

Reference to previous correspondence:

Letter *to* / *from* *the Dominions Office of the* —

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(2) 8.7.36

Transmitted by direction of the Secretary of State for Dominion Affairs.

A copy has also been sent to the FO

MAILS BRANCH 9 JUL 1936 INDIA OFFICE

Dominions Office, Downing Street,

193

8 JUL 1936

(R5953) Wt 32346/3586 20,000(4) 2/36 H & Sp Gp 640

P. Z.
4887
1936

CANADA
COMMONWEALTH OF AUSTRALIA
NEW ZEALAND
UNION OF SOUTH AFRICA
IRISH FREE STATE

Downing Street,

Circular despatch B. No. 75

8 July, 1936.

Confidential

Sir,
My Lord,

In connection with my Circular despatch B. No. 74 of to-day's date regarding the Report by Sir Frederick Leith-Ross on his recent mission to China, I have the honour to invite reference to my predecessor's Confidential telegram B. No.63 of the 8th June, 1935, and to my Confidential telegram B. No.91 of the 27th May last.

3732/36.

I have, etc.,

(SIGNED) MALCOLM MAC DONALD.

P. Z.
4887
1936

12

CANADA
COMMONWEALTH of AUSTRALIA
NEW ZEALAND
UNION OF SOUTH AFRICA
IRISH FREE STATE

Downing Street,

8 July, 1936.

Circular despatch B. No. 74

Sir,
My Lord,

I have the honour to transmit the accompanying copy of a Report, issued to the press on his departure from China, by Sir Frederick Leith-Ross, K.C.B., K.C.M.G., Chief Economic Adviser to His Majesty's Government in the United Kingdom, regarding his recent mission to that country to study its financial and economic conditions.

Report

I have, etc.,

(SIGNED) MALCOLM MAC DONALD.

INDEXED

India Office

P. Z. 13
3174
1936

CONFIDENTIAL

(F2572/1/10)

Political Dept

Corr Dept pp 3038.

492/35.

Pubg 10382 8/5

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 20 14MAY 1936
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

RECD. POL. DEPT.
8MAY1936
INDIA OFFICE

Foreign Office,

7 May, 1936.

G.W.P. Martin, Esq.,
India Office.

8—12343 B (4)

F.Z.
3174
1936

NO DISTRIBUTION.

Decypher. Sir F. Leith Ross (Shanghai) 4th May 1936.

D. (Wireless) 5th May 1936.

R. 10.00 p.m. 5th May 1936.

No:-

- - -

Addressed to His Majesty's Chargé d'Affaires at Nanking telegram No. 31 May 4th.

Canton telegram No. 18 and your telegram No. 83 Saving to Peking and Hongkong telegram No. 33.

I discussed Kuangtung proposal with Minister of Finance this morning. At first he expressed strong objection to British banks undertaking business without authorisation from Central Government. He said that such authorisation would only be given if assurances were obtained that Kuangtung Government would use foreign proceeds solely for stabilization of exchange. But he admitted that silver might be exported through other channels and if so that silver market might be depressed by unco-ordinated sales. He asked me to discuss the whole question with [? Soong] with a view to drafting concrete proposal. I will asvise you as soon as I can of result.

Repeated to Peking, Foreign Office and Hongkong.

INDEXED

P. Z. 2953 1936

(F 2294/1/10)

With the Compliments

of the

Under-Secretary of State for Foreign Affairs.

Ref:-
F.O. Semi-official letter F. 2027/1/10 of 17 Apr 1936

ENCLOSURE No. 19 7 MAY 1936
FROM SECRETARY, FOREIGN AND SECRET DEPT. INDIA OFFICE

Foreign Office,

25 Apr, 1936.

G. W. P. Martin Esq
India Office

F.P.Z.
2953
1936

COPY

NO DISTRIBUTION.

Decode. Sir R. Lindsay. (Washington).
April 23rd. 1936.

D. 6.19.p.m. April 23rd. 1936.

R. 9.30.a.m. April 24th. 1936.

No. 90. (R).

----------oOo----------

Your telegram No. 3 Saving.

Koo told Mr. Bewley that when business here is finished he intended to visit London and Europe on his way back to China. He said that Chen and Kwo would also like to return via Europe but could not decide until the result of and duration of negotiations here were known.

Please repeat to Sir F. Leith Ross.

Repeated to Sir F. Leith Ross, Tientsin, by Foreign Office No. 1.

INDEXED
P. Z.
2808
1936
CONFIDENTIAL

(F2266/1/10)

17 R.

Transferred to Pol Dept
Copy kept in Ind. Dept.

24/4

pp2302. 492 — 35

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

Ref:-
Semi-official
letter
F. 2027/1/10
of 17 April 1936

ENCLOSURE IN WEEKLY LETTER
NO. 18 30 APR 1936
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

Foreign Office,
23 April, 1936.

G. W. P. Martin Esq
India Office

8—11131 (4)

18

F.Z. 2808 1936

NO DISTRIBUTION

Decypher. Sir F. Leith Ross (Shanghai).
21st April, 1936.

D. (By Wireless) 22nd April 1936.

R. 7.30 p.m. 22nd April 1936.

No. 70.

Following from Sir F. Leith-Ross for Treasury telegram No. 45, begins:

Reference to Foreign Office despatch No. 185. (Wrong Reference)

I asked the Minister of Finance about this report. He said that Mr. Chen had told the press that he might be visiting Europe so that attention should not be concentrated exclusively on his visit to Washington. In fact, his only official mission was to Washington, but Mr. Chen would like to travel back via Europe if the situation here did not necessitate his immediate return. If so, however, his visit would be a private one, though he would take the opportunityto make any contacts desired.

Addressed to Foreign Office telegram No. 70, April 21st, repeated to Peking, Saving, to Mission.

Transferred to Fin Dept
Copy kept in Fin Dept
F.O. 371/19302
36
F.O.
2808
1936

NO DISTRIBUTION.

Code telegram to Sir J. Brenan, (Shanghai).

Foreign Office, 14th April, 1936, 3.00 p.m.

No. 57.

0:0:0:0:0:0:0:0

Following for Sir F. Leith Ross from Treasury.

New York correspondent of Times reporting on 9th April conferences between United States Treasury and officials of "Bank of China" (sic) says that Chinese bankers will go to London when their business in New York is finished. Bank of England know nothing of this and we should be glad of any information you may have.

Addressed to Shanghai (for Sir F. Leith Ross) No. 57. Repeated to Washington No. 3. (Saving).

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P. Z.
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1936

(F 1657/653/10)

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

E. & O.
2449
1936

Foreign Office,

2 Apl , 1936.

G.W. P. Martin, Esq.,
India Office.

8—12343 B (4)

ENCLOSURE IN WEEKLY LETTER
NO. 15 9APR 1936
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

P. Z.
2302
1936

21

NO DISTRIBUTION.

Decypher. Sir F. Leith-Ross (Shanghai).
25th March, 1936.

D. By wireless 25th March, 1936.

R. 6.05 p.m. 25th March, 1936.

No. 57.

.....

Following from Sir F. Leith-Ross for Treasury telegram No. 40, and Board of Trade.

The falling off in yield of customs revenue has been causing concern to Chinese Government and various proposals have been under consideration with a view to securing increase of revenue. I learn from confidential sources that Chinese Government will probably increase ad valorem duties so as to bring them into line with specific rates. Customs estimate that if this is done it will yield additional eighteen million dollars. One main item affected will be machinery but it seems improbable increase of duty will be such as to affect machinery imports.

Chinese Government may also increase some specific duties. But Japanese have made informal representations for reduction of duties on items of special interest to Japan and Chinese Government may be willing to make some concessions if in return Japan will agree to assist in suppressing smuggling.

Addressed to Foreign Office No. 57 March 25th; repeated to Peking, Nanking.

Registry 22 P.A.

Please transfer this to
E&O (keeping a copy & let[ter])
A copy of F.O. tel[egram] No 23 shd.
be made & sent to E&O.
Mr. Dibdin agrees to transfer.
HSR.
19/3

E&O. Secretary.

For information.

HAF Rumbold
16.3.36.

E. & O.
1839
1936

Secy Pol. Dept.

Seen. Thank you the Japanese are [illegible] making the first moves for negotiations of India: the present Ind 1934 Agreement expires 31.3.37 and the revision of this means revision of the raw cotton & piece goods quotas. Whatever else the B/T may say in reply they will no doubt answer that modification of the Indian quotas does not lie within their power.

AD.
(D) 3/36.

INDEXED

In any further communication on this subject, please quote No. F 1391/1391/23

and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

F. Z. 1823 1936

Political dept 23 Feb (Copy kept in file)

CONFIDENTIAL

(3/3 India)

THE Under-Secretary of State for Foreign Affairs presents his compliments to the Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Foreign Office,
12 March, 1936.

M 1568 492/35

Reference to previous correspondence:
F.O. letter No. F 1213/1/10 to W. Martin of 3 March 1936

Description of Enclosure.

Name and Date.	Subject.
Telegram from Sir F. Leith-Ross (Shanghai) Tel. No. 144 9 March 1936.	Anglo-Japanese commercial relations.

ENCLOSURE IN WEEKLY LETTER
NO. 12 19 MAR 1936
FROM SECRETARY, FOREIGN AND SECRET DEPT. INDIA OFFICE

FOREIGN DEPT. 13 MAR 1936

Similar letter sent to B.O. Treasury. D.O.T. B/T

14—6130 12343 (2)

Copy 15240 for action ABH 20/3

P. Z. 1823 1936

NO DISTRIBUTION.

24

Decypher. Sir F.Leith Ross (Shanghai) 9th March, 1936.

D. (By Wireless) 10th March, 1936.

R. 6.00 p.m. 10th March, 1936.

No.44.

xxxxxxxxxxx

Following for Board of Trade from Sir F.Leith Ross begins:

P.Z.1569/36. Reference to Foreign Office telegram No.23 Tour eighth paragraph.

I should be grateful for further explanation of what you have in mind in speaking of demarcation of markets. Main complaint of Japanese is Colonial and Indian quotas. Would you be prepared to modify these and if so, in return for what assurances about other markets.

INDEXED

(F 743 / 1 / 12)

Political Dept

25

India

Copy kept in Pol. Dept. No other available

We have a copy of Cadogan's tel. No 5 Tour it might go on this file.

P.Z. 1568 1936

580 3/3

pp 1051 1569.

Purby 1000 4/3

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

RECD. POL. DEPT. 4 MAR 1936 INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER NO. 10 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE 5 MAR 1936

Foreign Office,

3 March, 1936.

G.W.P. Martin, Esq.,

India Office.

8—11944 (4)

COPY

(F 743/1/10)

P. Z.
1568
1936

From JAPAN.

Decode. Sir R. Clive (Tokyo). 10th February, 1936.

D. 4.05 p.m., 10th February, 1936.

R. 9.30 a.m., 10th February, 1936.

No.43. (R)

- - - - -

970. My telegram No.40.

Mr. Matsudaira called today and showed me message which he proposed to send to Sir F. Leith Ross to the following effect: He hoped Sir F. Leith Ross would be able to visit Japan so that he might have an opportunity to discuss various matters with him. Moreover frank and friendly exchange of views between Sir F. Leith Ross and Japanese financiers could only help to foster mutual understanding.

At his request I promised also to telegraph to Sir F. Leith Ross and point out that, although invitation came from Mr. Matsudaira in order that it should be quite unofficial, the Japanese Government would welcome his visit. They did not wish Sir F. Leith Ross to interpret this as meaning that the Japanese Government were prepared at once to collaborate in a loan. They were anxious to clear up recent misunderstandings and pave the way to better relations.

Addressed to Foreign Office telegram No.43; repeated to Peking for Sir F. Leith Ross and Sir A. Cadogan.

INDEXED

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1936

CONFIDENTIAL

(F 1213/1/10)

Political dept
Copy kept in file

pp 1051.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

RECD. POL. DEPT.
-4 MAR 1936
INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER
NO. 10 5MAR 1936
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Foreign Office,

3 March, 1936.

G.W.P. Martin, Esq.,

India Office.

8—11944 (4)

[This Document is the Property of His Britannic Majesty's Government, and should be returned to the Foreign Office if not required for official use.]

P. Z. 1569 1936

To CHINA.

Cypher telegram to Sir A. Cadogan (Nanking),

Foreign Office, 29th February, 1936. 7.5 p.m.

No. 23. TOUR.

Copy given to Eroslift for action A.W.L. 20/3

651. Your telegram No. 3 Tour.

The Chancellor of the Exchequer and I have discussed the position as set forth in your telegram. We feel that Sir F. Leith-Ross under-estimates the value of his presence and work in China and the effect which his departure would have. We consider that if he were now to bring his mission to an end it might be interpreted as an admission of defeat at the hands of Japan and involve a damaging loss of prestige everywhere in Asia. Moreover would not both the British Community in China and the Chinese Government feel that we had finally let them down and the Japanese lose respect for us, so that any hope of building up Anglo-Japanese friendship on basis of mutual respect would be seriously jeopardised?

We therefore consider that our right policy is to be very patient and that Sir F. Leith-Ross should remain for some time longer in the Far East. We feel that the importance of improving our relations with Japan while keeping up our end in China justifies us in asking Sir F. Leith-Ross to remain despite the personal inconvenience to him involved.

As regards our attitude to Japan, we are definitely not prepared in view of the international situation as a whole to "take a strong line" in the sense of threatening or pillorying Japan. We think that firmness must be combined with infinite patience. We are therefore not in agreement with the proposal to warn Japan as suggested in paragraph 12 of your telegram, nor to give them the outline of a draft report as suggested in paragraph 13.

With

With reference to Sir F. Leith-Ross' telegrams Nos. 29 and 30 of 12th February, and Sir R. Clive's telegram No.46 of 14th February, we regard it as essential that he should accept the invitation to re-visit Japan, but we consider that his visit should not be on the basis that he has finished his work and is about to return to England.

We therefore consider that he should reply to Mr. Matsudaira, through Sir R. Clive and the Japanese Minister for Foreign Affairs that, so far from having completed his work, his present feeling is that he will need to stay for a considerable time, but that if, as we assume, the Japanese Government think that, at the present stage of his work, the frank and friendly exchange of views referred to in Mr. Matsudaira's letter will be of advantage in furthering mutual understanding between the two countries, Sir F. Leith-Ross will be most pleased to interrupt his work for a while and accept the invitation to pay a visit to Japan.

His main purpose should, in our view, be to clear up the misunderstandings about his mission which have arisen in Japan, and to do his best to convince the Japanese of the falseness of their suspicions that his attitude has been hostile to Japanese interests. If he finds the Japanese attitude to a loan to China to be still entirely hostile, he should not pursue the matter further with them for the time being.

As to this, caution appears to be necessary in interpreting any signs of more conciliatory disposition in Tokyo towards a loan as indicating a real change of attitude and not as merely a characteristic device for avoiding open responsibility for frustrating a loan. Amau declaration, to which a non-Japanese loan would run counter, no doubt represents fundamental Japanese policy. Moreover, even if attitude in Tokyo appeared reasonable

that

that of Japanese army would be less likely to change. As you remark in a recent despatch, they were very likely stimulated by prospects of a loan to their recent encroachment on North China and we certainly do not want any repetition of this or further interference with the Customs Revenue in northern ports.

We have discussed with the President of the Board of Trade Sir R. Clive's view that the Japanese may use the occasion for the visit to raise the question of Japanese-British commercial relations. On this we feel that it might well be a real advantage to exchange views and incidentally it would provide a fresh subject for Sir F. Leith-Ross and the Japanese to discuss instead of dwelling solely on present differences. Our view here is that the most promising method of approach to the question would take the form of some demarcation of markets. Sir F. Leith-Ross might put this forward as his own idea, making it clear that he was not empowered to discuss commercial relations and see how far such an idea was likely to receive favourable consideration. In the event of prospects appearing hopeful he could refer to us for further elaboration. If on the other hand no progress seems possible on these lines he would drop it repeating that this was beyond the purview of his instructions.

The above instructions were prepared before the Tokyo murders and the question of Sir F. Leith-Ross' visit to Japan will obviously have to be further considered. In the meanwhile Sir F. Leith-Ross should defer replying to the invitation which Mr. Matsudaira himself may probably not wish to press at the present moment.

Repeated to Peking No. 65 and Tokyo No. 31.

Please repeat to Sir F. Leith-Ross.

INDEXED

(F 463/34/10)

Z 31
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CONFIDENTIAL

Put by
H 19/2
India
M & R

Political Dept
Copy kept in file
5/2

pp 555.
1
M. R.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 6 6 FEB 1936
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

Foreign Office.

4 February, 1936.

6

G.W.P. Martin, Esq.,
India Office.

8—12343 B (4)

886
1936

NO DISTRIBUTION.

Decypher. Mr. Howe, (Peking), 22nd January, 1936.

D. W/T. 22nd January, 1936.

R. 3.00 p.m. 22nd January, 1936.

No.27.

-o-o-o-o-o-o-o-o-

Addressed to His Majesty's Ambassador, telegram No.19, January 22nd.

Following is based on information from local agent of Chartered Bank. Jehol ~~Jehol~~.

In view of abnormal withdrawals from Post Office Savings Bank, Postal Commissioner, Peking, cashed with Chartered Bank draft on Shanghai for one hundred thousand dollars.

2. According to prominent Chinese banker Minister of Finance has approached Chinese banks with a proposal to convert total amount of domestic bonds into a new issue of one thousand million dollars at 4% and offered substantial premium as an inducement. Fears are entertained that writing down of present indebtedness on such lines or even moratorium may be imminent and rumoured recent heavy sales of Government bonds have increased financial uncertainty. Suiyuan

3. ~~Information~~ Source in Peking (~~3 groups undec~~:) railway states that yen and Manchurian currency are now freely circulating in Kalgan.

4. There are indications from varying sources that yen is being increasingly used at Tientsin.

Repeated to Foreign Office, Commercial Counsellor, Financial Adviser, Saving to Tientsin.

INDEXED Political Dept

FILE COPY

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P. Z. 258 1936

NO DISTRIBUTION.

Decypher. Sir F. Leith Ross. (Shanghai). January 7th. 1936.

D. (by wireless) January 7th. 1936.

R. 6.15.p.m. January 7th. 1936.

No. 5.

pp58.

------oOo------

Following from Sir F. Leith Ross for Treasury telegram No. 5 and Bank of England.

In accordance with instructions conveyed in your telegram No. 84 of December 31st I saw Henchman on January 3rd and urged him to fall into line with other banks. Today he has agreed and all British banks are notifying Chinese Government of their readiness to surrender under one or the other of the alternative offers made. I understand other foreign banks have decided to act similarly except only the Japanese who are awaiting instructions.

Addressed to Foreign Office telegram 5 of January 7th; repeated to Peking.

ENCLOSURE IN WEEKLY LETTER
NO. 3 16 JAN 1936
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

REGD.
11 JAN 1936
INDIA OFFICE

F 8027/6/10

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

Pol Dept
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ENCLOSURE IN WEEKLY LETTER
NO. 2 9 JAN 1936
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Foreign Office,

31 Dec, 1935.

O.W.P. Martin, Esq.,

India Office.

8—11944 (4)

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1936

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NO DISTRIBUTION.

Decypher. Sir F. Leith Ross (Shanghai).
25rd December, 1935.

D. 10.32 a.m. 24th December, 1935.

R. 9.30 a.m. 24th December, 1935.

No. 77.

.....

Reference to Peking No. 1072 to Foreign Office paragraph 4.

Kung offered foreign banks free use of 100 legal tender notes for two years, they should be 60 surrendered and 40 securities deposited on pension. In view of fall in silver foreign banks now inclined to accept above proposal which would give the Companies satisfactory percentage for two years. German banks have already accepted and American banks have agreed in principle to accept. Cockburn has asked his Board for authority to accept and would carry Mercantile and P & O Bank on condition Hongkong and Shanghai Bank also accept. Henchman however still opposed as he has not yet obtained settlement of China merchants' debt and he will probably not agree unless I formally request him. I think time has come to do so but in view of previous exchanges of telegrams on this subject I would be glad to know if you now agree.

Addressed to Foreign Office No. 77 of December 23; repeated to Peking.

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WITH THE COMPLIMENTS

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UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

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ENCLOSURE IN WEEKLY LETTER
NO. 1 2 JAN 1936
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Foreign Office,

28 DEC , 1935.

G.W.P. Martin, Esq.,

India Office.

8—11944 (4)

P.Z.
9372
1935

NO DISTRIBUTION.

Decypher. Sir F. Leith Ross (Shanghai).
24th December, 1935.

D. 4.37 p.m., 24th December, 1935.

R. 10.30 a.m., 25th December, 1935.

No. 78.

::::::::::::

Following for Treasury telegram No. 60 and Bank of England.

Yesterday heavy speculation resumed by "political" group. Gold bar active. Market unsettled. Central Bank rattled. Today calmer and situation controllable provided Government determined to maintain exchange and measures under consideration to curtail facilities for speculation or (? sale) vigorously applied. But otherwise outlook serious especially if silver falls much further.

Addressed to Foreign Office telegram No. 78 December 24th; repeated to Peking.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

Political dept
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ENCLOSURE IN WEEKLY LETTER
No. 52 24DEC 1935
FROM SECRET DEPT. INDIA OFFICE

Foreign Office,

Dec 19, 1935

G.W.P. Martin, Esq.,

India Office.

8—11944 (4)

P.Z.
9118
1935

NO DISTRIBUTION

Decypher. Sir A. Cadogan (Peking). 16th December 1935.

D. (By Wireless) 16th December 1935.

R. 7.00 p.m. 16th December 1935.

No. 1122.

"""""""""""""""""""""""""""

Following received from Financial Adviser telegram No. 34 of December 14th, begins:

Your telegram No. 1107 to Foreign Office.

Henchman fully shares views which I expressed. In the present conditions, Customs security has become so precarious that he would not regard it as possible to float a loan. This fact renders necessary modification of the proposals put forward in my telegram No. 35 (~~Sec~~) of November 14th.

P.Z.
9118
1935

NO DISTRIBUTION.

Decypher. Sir A. Cadogan (Peking).
16th December, 1935.

D. By wireless 16th December, 1935.

R. 4.00 p.m. 16th December, 1935.

No. 1124.

.....

Following received from Financial Adviser:

Telegram No. 38 December 16th, begins:

Rogers tells me he has been able to make little progress recently with banking reforms. Kung shows no understanding of principles and his main pre-occupation is to retain double rôle as head of the Central Bank as well as Minister of Finance. He has entrusted drafting of Central Bank statutes to Jian Chen (Chen Hsing who is both dishonest and incompetent and of the mortgage bank to T.L. Soong who has similar qualifications. Chang Kia-ngau who is honest and competent has deliberately kept out of the discussions. In these circumstances reforms are not likely to be drafted on lines which we contemplate. Meanwhile exchange has turned weak, probably as a result of upset in silver market and Central Bank has lost considerable amounts of foreign exchange chiefly to Japanese banks, but run is not at present serious. Indeed it may be useful if it shakes Kung's complacent optimism.

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India

Mr. R.

(File is with me)

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
O. 50 12 DEC 1935
TO THE UNDER SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Foreign Office,

4 DEC , 1935.

G.W.P. Martin, Esq.,

India Office.

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F.Z.
8739
1935

NO DISTRIBUTION.

Decode. Mr. W iggin (Tokyo) 26th November, 1935.

D. 11.20 a.m. 26th November, 1935.

R. 9.30 a.m. 26th November, 1935.

No. 305. (R).

^^^^^^^^^^

Press telegrams from Tientsin dated November 24th attribute Sir F. Leith Ross remarks to the fact that he was confident that difficulty created by the embargo of silver exports to the South would be amicably settled; that Shanghai must in any case remain the economic centre of China; that he was in the North to study the position there of Central Banks institutions; and that break in economic relations between the north and the south must have grave financial consequences for Chinese people.

Yesterday Foreign Office spokesman, despite notorious inaccuracy of the press services concerned, used the above as the text for long and strongly worded harangue to foreign journalists. It was, Mr. Amau said, not very long ago since Britain had informed Japan in writing that she deprecated loan to China as calculated to increase the latter's indebtedness. Reversing this policy she had lately given anti-Japanese elements in Nanking new lease of life at the moment when the patient efforts of Mr. Hirota to reach agreement with General Chiang Kai-shek in consonance with recommendations of League of Nations and in face of

scepticism

scepticism of powerful elements in Japan who mistrusted the General - seemed to be approaching success. Sir F. Leith Ross had aggravated the position by giving the impression that despite his denials he was behind the so-called Chekiang financial clique. His movements moreover were suspicious and inconsistent with his assurances. His latest remarks were particularly ill-timed; so far from weakening autonomy move they were likely to strengthen it and to harden opinion.

Mr. Amau described the above as his personal impressions only.

NO DISTRIBUTION.

Decypher. Sir A. Cadogan. (Peking).
28th November 1935.

D. By Wireless 26th November 1935.

R. 5.15 p.m. 26th November 1935.

No.1050.

oooooooooooooooooooo

Reuters report Japanese Foreign Office spokesman as having said that Sir F.Leith Ross' utterances in North China differ from what he authoritatively stated in Tokyo and are causing grave suspicion. Reuter's representative here has asked Sir F.Leith Ross for his comments but pending any instructions latter feels it better to make no statement. Do you wish him to make any statement? There is of course no inconsistency.

While at Tokyo Sir F.Leith Ross expressed earnest desire to see understanding between China and Japan but urged that in return Japan should undertake to abstain from further intervention in China. He has consistently maintained the same line with Chinese in so far as he has had political discussion but generally has confined himself to financial ground. He considers (? consolidated) currency reform of vital importance to all countries trading with China including Japan who would in fact be the principal gainer. He was assured at Tokyo that Japanese Government want to see stable and prosperous conditions in China and instigation~~ist~~ ?of autonomist activities appears inconsistent with these assurances. The above is being repeated to Tokyo.

Addressed to Foreign Office No.1050, repeated to Tokyo.

(P 7254/6/10)

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ENCLOSURE IN WEEKLY LETTER
NO. 49 5DEC 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

Political Dept.

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REGD. POL. DEPT.
29 NOV 1935
INDIA OFFICE

Foreign Office,
28 NOV 1935 , 1935.

G.W.P. Martin, Esq.,

India Office.

8—11944 (4)

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P.Z. 8594 1935

(F.7045/6/10.)

To CHINA.

Cypher telegram to Sir A. Cadogan (Nanking).

Foreign Office. 13th November, 1935. 7.30 p.m.

No. 47 Tour.

::::::::::::::

Tokyo telegram No. 294 (of November 10th: Chinese financial situation).

I realise how difficult it is for you to comment effectively on paragraph 3 but if you have any observations I should welcome them. I should be glad also of your observations on chances of any financial assistance being stultified not only through Japanese action but through internal dissension. Has attempt on Wang Ching-wei weakened prospects of there continuing to be a reasonably effective Chinese Government? Is there any chance of a loan to present Government being treated by Chiang Kai-shek's enemies as a personal matter and increasing their antagonism? Is there any danger of dissensions leading to a failure to remit customs revenues from the provinces to Central Government? These all seem to be material factors in estimating chances of a loan proving ultimately useful.

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F.O. 8594 1935

From CHINA.

Decypher. Sir A. Cadogan (Shanghai). 16th November, 1935.

D. (Via W/T.) 16th November, 1935.

R. 7.00 p.m., 16th November, 1935.

No. 86 Tour.

::::::::::::::

I have already submitted certain comments in my telegram No. 85 Tour series. The possibility of internal dissension cannot of course be discounted altogether but I should say that the prospects of unity are better than they have been for some time past.

In particular the participation of the Cantonese leaders in the party conference at Nanking is an encouraging sign. It may be that they will not co-operate usefully and that they may remain silent or critical observers, but their very presence marks an advance towards a reunion. There are indications that the Chinese Government are beginning to feel that they have gone as far as is possible in making concessions to the Japanese and a show of resistance to further demands may evoke some degree of unity of national feeling.

I do not think that the attempt on Wang Ching-wei has weakened the prospects of the Chinese Government, nor do I think that the grant of loan would strengthen the opposition to Chiang Kai-shek.

I do not think that the internal dissensions will result in failure to remit customs revenues from the provinces to the Central Government except in so far as North China at Japanese prompting or under Japanese pressure may break away from Nanking.

Minister ...

Minister of Finance this morning told Sir F. Leith Ross the authorities of Hopei and Shantung are being urged by the Japanese to assert their independence and are being promised protection against Nanking, but they are reporting Japanese intrigues to Nanking which would make it appear impossible at present; at any rate they are not responding to Japanese advances.

There is always the possibility of forcible intervention by Japan, but although fully conscious of the danger of attempting to prophesy, I should be inclined to doubt whether that is imminent.

There is no indication that currency change itself has caused any internal dissension. All information available suggests that it has been accepted and indeed been welcomed throughout China. Only Manchurian railway has (grp. undec.)ed to actual shipment of silver reserves to Shanghai. The banks at Tientsin, Hankow and Canton feared that such a shipment might alarm local population and Chinese Government decided to create sub-treasurers of Central Bank in above ports so that silver reserves could remain there. Leith Ross thinks that this was wise in the circumstances. In his view the main risk from financial standpoint is that extreme nervousness as to Japanese military action felt here may shake confidence in the ability of the Chinese Government to maintain the value of currency and (? force the) flight of capital. If there were prospect of foreign (? loan) it would undoubtedly help to counteract this risk.

Addressed to Foreign Office No. 86 of November 16th; repeated to Tokyo Saving No. 47 Tour series.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN [illegible] LETTER
NO. 48 28 NOV 1935
FROM [illegible] AND
SECRET DEPT. INDIA OFFICE

RECD. POL. DEPT.
25 NOV 1935
INDIA OFFICE

Foreign Office,

22 NOV , 1935

G.W.P. Martin, Esq.,

India Office.

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1935

NO DISTRIBUTION

Repetition of telegram from Sir F. Leith-Ross (Shanghai).
No. 85. R. 4.30 p.m. 8th November, 1935.

SECRET

Following from Sir F. Leith-Ross for Sir Warren Fisher:
Treasury telegram No. 28.
Begins:

Foreign Office telegram No. 34 Tour series and my telegram No. 24 to the Treasury. Following are the joint comments of His Majesty's Ambassador and myself on policy promised in my telegram No. 24 to the Treasury (my telegram No. 30 to Foreign Office).

While we realise political objections, definite prospect of loan arraged by British banks would have given us opportunity (a) to recover prestige by taking the lead in reconstruction of China (b) to obtain some satisfaction and promise of supervisory conditions for British investors and traders and (c) to assure ourselves that reforms would be properly prepared and reasonably safeguarded. We assume from your telegram that you do not rule possibility of loan and opportunity for securing(a) and (b) above may therefore recur. But as the Chinese Government are launching scheme it has not been possible to insist on reforms to the same extent as we could have done with loan assured. They have adopted a number of our suggestions but we feel doubt as to adequacy of preparation and efficiency of execution. If as is conceivable scheme succeeds without help, Chinese may lose interest in loan and in satisfying our conditions. If on the

other....

other hand scheme is unsuccessful the whole situation will deteriorate, British trade and investments will be further prejudiced andeventually loan may become essential for more difficult repayment operation.

Similarly as Chinese decided to act independently, it was not possible to insist that they should consult other governments beforehand or authorise us to do so insofar as they considered such consultation inexpedient. They have however in deference to your views informed United States of intentions as reported in paragraph 3 of my telegram No. 24. They have not replied as to approaching other governments but we agree that announcement now made removes the main objections to discussing stabilisation on sterling. Indeed object of negotiation will now be (grp.undec:) loan to assist Chinese Government in carrying through their programme. I have not specifically mentioned sterling standard in discussions with the Japanese and United States Ambassadors here but they probably appreciate that stabilisation with support of London implies sterling standard. Details of loan terms cannot be discussed for reasons explained in paragraph 6 of my telegram No. 30 to Foreign Office (my telegram No. 24 to Treasury) until domestic bondholders have agreed to prior charge on customs although he hopes that this will be arranged in a few days and we can then discuss possibilities frankly with other Governments by whatever channel you consider best. I am in touch with Japanese and United States Ambassadors here and have also seen manager of Bank of Indo-China who is only French representative available.

3.....

(3) We fully appreciate importance of seeking co-operation of these countries both from political and from financial standpoint. But they have refused to send experts here for consultation and this alone seems to us to justify independent action if otherwise desirable. Moreover (?having) regard to antagonism of gold to sterling bloc can we expect France or America to endorse free standard? We have reason to know that French Government have already decided against it and that only possibility from France is the participation in loan by Bank of Indo-China. United States Ambassador is entirely favourable to Chinese scheme and expects that American banks would readily co-operate in loan but Washington will probably regard question from political standpoint. So far as we can judge, participation by American and French banks, which would probably bring in Japanese also, is the most that can be expected.

(4) Position of Japanese is different. As they are themselves linked to sterling, they have no reasons to oppose sterling stabilisation on current accounts. But they are undoubtedly opposed to any assistance to China (?grp.omtd.) Western Powers as they wish to eradicate all non-Japanese influence and interests here. Japanese Ambassador (~~?grp.omtd.~~) has received no reply to my enquiries and as yet we have heard nothing from Sir R. Clive.

(5) Chinese announcement may stimulate Japanese response and in any case it would be best for me to stay here for some weeks to watch developments and to press for settlement of railway defaults which constitutes bar to any loan at present.

If.....

If this obstacle can be overcome and if no sufficient degree of endorsement has been obtained through Japanese Ambassador I should be ready to return to Japan if you think it advisable and make further effort to secure co-operation. But both Ambassador and I think this is only advisable on the condition set out below and that we agree that utmost patience should be displayed to Japanese and every effort made to meet them on legitimate points. But are you willing to (?renounce) British (?Inspector General of Customs) and British Bank Adviser if the Japanese object? Are you prepared to renounce effort to secure settlement of the Railway default? These are all points to which Japanese may object. And in last resort is it your intention that loan which bankers here are ready to launch should not be proceeded with failing Japanese endorsement? In present state of Sino-Japanese relations such endorsement might only be obtained on conditions which no Chinese Government could accept and survive. Moreover if scheme is to be abandoned owing to unreasonableness of Japanese objections effects on our prestige from a political point of view and our trade from a financial point of view require careful consideration. Such decision would, we fear, be treated by both British interests and Chinese Government as a clear sign of subordination of British policy to Japanese and if it were to follow a visit to Tokyo our humiliation would only become more public and abject.

(7) Our view is that details of scheme should continue to be worked out and that I should keep in contact with

Japanese....

Japanese and United States Ambassadors. If no sufficient endorsement is forthcoming from former I would then again go to Tokyo to explain the whole scheme with complete frankness and to seek co-operation. If after reasonable stay inacceptable demands were formulated or there were no signs of any wish to co-operate we suggest that I then be authorised to inform them that we propose to approve British banks floating loan provided they are satisfied of condition and to give London quota, it being open to Japanese and other banks to participate. Unless firmness to this extent is shown we fear Japanese may receive impression that, however heedless of our wishes or interests their policy in China, may be it can be pursued with impunity. We very much hope that you will be able to approve this procedure.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEE[illegible] TER
NO. 47 21 NOV 1935
FROM SECRETARY, PO[illegible] AND
SECRET DEPT. INDIA

Foreign Office,

18 NOV ; 1935.

Copy Rept

G.W.P. Martin, Esq.,

India Office.

8—11944 (4)

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P.Z. 8347 1935

From JAPAN.

Decode. Sir R. Clive. (Tokyo).
November 15th. 1935.

D. 3.55.a.m. November 15th. 1935.

R. 5.15.p.m. November 15th. 1935.

No. 298. (R).

-------oOo-------

I asked to see Minister for Foreign Affairs today to tell him that I was going for a short holiday with your permission and that as I expected to see Sir A. Cadogan and Sir F. Leith Ross in Shanghai I was anxious to know the attitude of the Japanese Government towards the currency reform and loan questions. I understood no reply had been sent to the Japanese Ambassador yet.

I wished to say, however, that I had been most disagreeably impressed by the tone of recent press telegrams from Shanghai. Both in reference to the loan question and to the reported anti-Japanese movement - murder of Japanese sailor and wrecking of shop - these telegrams had definitely provoked and were calculated to arouse anti-Chinese feeling here. I had been told on very good authority that these telegrams were also first shown to Japanese military in Shanghai. I was astounded that the Japanese Military Attaché had issued a violent diatribe against the Nanking Government on the nationalization of silver (see my telegram No. 293). Was it customary for Japanese Military Attachés to air their views on economic questions independently of the Ambassador? His Excellency replied that this statement should never have reached the press and had caused surprise to the Japanese Government. I said that none the less it had been supported by the War Office spokesman (see my telegram No. 295) and it seemed to me intolerable that these officers should be trying

to .....

to intimidate the Chinese Government in regard to what was after all an internal Chinese affair.

The methods of the Chinese Government might be open to question but many high Japanese officials admitted that currency reform would be in general in the interest of trade. Could His Excellency tell me what reply would be sent to the Japanese Ambassador in Shanghai.

His Excellency said at once that there could be no question of Japanese banks giving up their silver. Unfortunately the Chinese situation was more complicated than usual by the new anti-Japanese movement. Here I interposed to ask whether he attached credence to the report in this morning's papers that Chiang Kai-shek had adopted a war-like attitude to Japan at the Kuomintang Conference. He said that his information was that Chiang Kai-shek may well have spoken to his military people as reported although probably not to civilians. In any case His Excellency considered that the position in China was very grave and the Japanese Government would not express their considered views on the loan question until the Kuomintang Conference was over and the general position was much calmer.

He said that Japanese bankers had been approached through the Yokohama Specie Bank by British banks with a view to their subscribing to the loan. Japanese banks were much embarrassed and could not commit themselves. Moreover they shared the view, which he said, had been reported from London that the City considered tenpence was a more correct figure for stabilisation than one shilling and twopence halfpenny.

I asked if I was to understand that if the anti-Japanese movement subsided and things were calmer Japanese would then be prepared to discuss the loan question on its merits. His

Excellency ....

Excellency avoided a direct answer. He said that Sir F. Leith Ross had said he would return to Japan; I replied that I believed that Sir F. Leith Ross would be quite ready to come here if he had any encouragement from the Japanese side but so much violent propaganda was going on that it seemed useless for him to come at present.

He said that he thought it best first to see what China would do by her unaided efforts. The Minister of Finance had informed the Japanese Ambassador on November 4th that China depended on no one for her policy. If her policy was to depend on outside assistance that would be derogatory to Chinese prestige. It was best therefore to wait and see what happened and that was what he proposed to do.

Addressed to Foreign Office No. 298; repeated to Shanghai.

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F.O.
8347
1935

From JAPAN.

Decode. Sir R. Clive (Tokyo). 16th November, 1935.

D. 4.35 p.m., 16th November, 1935.

R. 10.00 a.m., 16th November, 1935.

No. 300. (R).

::::::::::::

My telegram No. 298.

Asahi this morning alone reports my interview with Minister for Foreign Affairs stating that His Excellency asked me to call in order, before my departure, to give me formal reply based on decision reached by Minister for Foreign Affairs and Minister of Finance to proposals made through Japanese Ambassador.

Reply is said to have been to the effect that Japan was more concerned in currency reform and financial and economic improvement in China than any other foreign country, that Japanese Government believed improvement should be accomplished through self recovery, that relief by means of joint loan by the Powers would destroy foundation of China's finances and might lead to control by the Powers. Japanese Government were therefore absolutely unable to agree to such a proposal.

I have ascertained from Ministry of Foreign Affairs that nothing was said to the press and that this report is purely surmise. Interview took place purposely at Minister for Foreign Affairs' residence in order to escape the press.

Addressed to Foreign Office No. 300; repeated to Shanghai Saving and Peking.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 47 21 NOV 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

Foreign Office,

15 NOV , 1935.

G.W.P. Martin, Esq.,

India Office.

Copy Repr

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8325
1935

NO DISTRIBUTION.

Decode. Sir R. Clive (Tokyo).
11th November, 1935.

D. 7.40 p.m., 11th November, 1935.

R. 2.35 p.m., 11th November, 1935.

No. 295. (R).

::::::::::::::

My telegram No. 294.

Local press gives prominence to three "informal" statements issued on Saturday the 1st (sic) by Ministry of Foreign Affairs, the other two by Ministry of War.

Press Department of Ministry of Foreign Affairs said in effect that Ministry regretted China's failure to consult Japan and considered recourse to foreign loans must end in failure and sympathised with attitude of Japanese banks in refusing to surrender their silver.

Statement made by Press Department of Ministry of War was considerably longer and stronger. The Chinese people, the spokesman said, had no confidence in Nanking Government and enforcement of currency measures could only lead to hoarding and smuggling. To force North China in particular to surrender silver would cause social and political chaos there. Organisers of scheme however stood to enrich themselves personally by any drop in exchange value of Chinese dollar; it was only another scheme of spoliation of people and as such must be opposed by Japan. Nanking Government were believed to have obtained through Sir A. Cadogan and Sir F. Leith Ross prior understanding with Great Britain that she would support currency reform on its promulgation. Funds to be subscribed for subsequent loan in which Japan had apparently been asked to co-operate would be used by

China ...

China merely for war purposes. Small loan however would be inadequate; others would inevitably follow weighing more and more heavily on the Chinese people. In the end China would come under international control. Reported conditions of Great Britain for the loan were

(1) Inspector General of Customs must remain British;

(2) Railway receipts of country must be pledged as security;

(3) Nanking Government must appoint British financial adviser and set up Anglo-Chinese Commission.

These conditions which could not be mere rumours were tantamount to asking Nanking Government to sell China to a foreign Power. Great Britain in brief was launching a severe counter attack against Japan in retaliation for Manchurian incident. Great Britain meant to confront Japan with China as a financial protectorate. Such a situation could not be tolerated by Japan, the only stabilising factor in the Orient.

The third statement issued by Vice Minister for War while milder said that sudden nationalisation of silver could only spell social and political confusion. China should rather enable her farmers to help themselves. Japan could not ignore the failure of the Nanking Government to consult her nor the latter's facile abandonment of their pretended pro-Japanese attitude for a future European pro-American policy. Such a policy could only produce confusion in North China to which Japan was paying special attention. The Vice Minister ended with the assertion that he heartily endorsed the statement of the Military Attaché referred to in my telegram No. 293.

Addressed to Foreign Office telegram No. 295; repeated to Shanghai Saving and Peking.

P.Z.
8325
1935

NO DISTRIBUTION.

Decypher. Sir F.Leith Ross (Shanghai). 11th November, 1935.

D. (By Wireless) 11th November, 1935.

R. 3.55 p.m. 11th November, 1935.

No.47.

xxxxxxxxxxx

Following from Sir F.Leith Ross for Sir Warren Fisher Treasury No.37.

Tokyo telegram No.293 to Foreign Office.

No reply yet received from the Japanese Ambassador as to official Japanese attitude but local Japanese press continues to carry on a violent campaign against currency reform alleging unpopularity and prophesying failure. These attacks do not appear as yet to have affected Chinese sentiment. Market situation continues favourable and considerable quantities of silver have been surrendered by public. Government Bonds have lost some of the advances made earlier in the week but Government Banks have received instructions to prevent too rapid a rise. Action of Canton and Hongkong should strengthen confidence in the scheme. But the Japanese press attacks are not helpful and create an under current of nervousness. When I next see the Japanese Ambassador I propose to tell him that the press campaign seems to me to have no economic justification and creates an unfavourable impression at home suggesting that the Japanese are working not to help but to prevent China's efforts to rehabilitate herself. Do you approve?

Repeated to Tokyo.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 47 21 NOV 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

Foreign Office,

15 NOV , 1935.

G.W.P. Martin, Esq.,

India Office.

Copy kept
19/11

8—11944 (4)

65

P.Z.
8324
1935

NO DISTRIBUTION.

Decode. Sir ... Clive (Tokyo)
10th November 1935.

D. 11.45 a.m. 10th November 1935.

R. 10.00 a.m. 10th November 1935.

No. 293. (R).

- - -

Asahi states this morning that Ministry of Foreign Affairs will shortly instruct Japanese Ambassador that Japan will have nothing to do with loan to support Chinese currency reform. Violent diatribe by Japanese Military Attaché at Shanghai against silver nationalization was published here yesterday Japanese press unanimous in attacks on Nanking Government.

Addressed to Foreign Office No. 293 of November 10th, repeated to Shanghai.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
No. 47 21 NOV 1935
FROM SECRETARY, POLITICAL AND
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Foreign Office,

Nov 14, 1935.

G.W.P. Martin, Esq.,

India Office.

Copy kept

15/11

8—11944 (4)

P.Z. 8323 1935

67

NO DISTRIBUTION.

Decypher. Sir F. Leith-Ross. (Shanghai). November 5th. 1935.

D. (by wireless) November 5th. 1935.

R. 5.00.p.m. November 6th. 1935.

No. 41.

-----oOo-----

Following from Sir F. Leith-Ross for Sir W. Fisher, Treasury, telegram No. 31 and Bank of England.

Foreign Office telegram No. 32 Tour October 30th, paragraph 11. Following are our comments.

Under Chinese Government scheme foreign exchange proceeds of silver and of eventual loan would be paid into reserves of Central Bank and Central Bank would be under obligation to ~~repeat~~ hire notes in so far as foreign exchange was lost. Thus there would be no dollar margin available for lending to Chinese Government. Foreign exchange proceeds of silver must be included in reserves of Central Bank and foreign exchange proceeds of loan might also be required for reserves. Part might be placed in special fund outside reserves in order to meet major capital movements. Is this what you instructed?

2. Chinese Government would probably agree that foreign exchange proceeds of loan should be used only to support exchange in agreement with adviser but such stipulation would have little substance as adviser could not effectively control individual demands of budget and foreign exchange. Our view is that in general foreign exchange reserves should be centralized by Central Bank and safeguards obtained that Central Bank will not only restrict circulation to the extent that it loses exchange but also pursue appropriate credit policy.

3.....

3. They would note that you agree that dollar counterpart of loan should be released for budget deficit. Release might be made dependent upon specific scheme of budgetary reform and we will endeavour to work out proposal to that effect. But is it practicable or expedient to make Central Bank adviser responsible? responsibility would entail practical control of budget. There is much to be said for special budget controller though this would meet with strong objections both from Chinese and from Japanese. But responsibility should not be placed on Bank adviser as it would interfere with his influence and authority in banking matters.

4. Apart from the above, release of dollars should not be made dependent solely on progress of budget and (? public policy) . We consider it most important to improve price of domestic bonds both to reduce budgetary charges by conversions and improve banking position. Further fresh proceedings required for domestic (gr.undec.) institutions (1) To nurse frozen assets: (2) To deal with new mortgage business. In so far as this capital to be raised in cash (and Central Bank shares sold) market resources must be expanded. Cash will also be required to redeem government debt to Central Bank and uncovered notes of weaker banks. The problems of government financial and banking difficulties are closely inter-locked and their solution in our view can best be approached through careful programme of government debt redemption. Unless silver profits can be quickly realized substantial part of loan proceeds might with advantage be applied to re-purchase of debt and budget deficit (? sale) to be covered by eventual silver profits. Much depends on rate at which silver can be sold but we are disposed to advise that dollar counterpart of loan should not be tied up too closely to budget.

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India. Pur-by Dept 19/11

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

EARLY LETTER
21 NOV 1935
POLITICAL AND
INDIA OFFICE

Foreign Office,

15 NOV, 1935.

Copy kept

G.W.P. Martin, Esq.,

India Office.

15/11

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P.Z.
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1935

COPY.

NO DISTRIBUTION.

Cypher telegram to Sir J. Brenan (Shanghai).

Foreign Office. 15th November, 1935. 6.50 p.m.

No. 59.

Following for Sir F. Leith Ross.

Your Treasury telegram No. 37.

I approve of your speaking to the Japanese Ambassador as you propose.

Repeated to Tokyo No. 227.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 47 21 NOV 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

Foreign Office,

15 Nov , 1935.

Copy kept

G.W.P. Martin, Esq.,

India Office.

8—11944 (4)

P.Z.
8321
1935

NO DISTRIBUTION.

Cypher telegram to Sir J. Brenan (Shanghai).

Foreign Office. 13th November, 1935. 6.00 p.m.

No.57.

XXXXXXXXXXXX

Following from Waley for Sir F. Leith Ross.

In a conversation yesterday with Tomita, the Japanese Financial Attaché, I emphasised that the Chinese currency measures were taken on their own responsibility, and without prior information to you. I said that the idea that we desired to turn China into a British financial protectorate is absurd.

Tomita said that he fully agreed in all this but your mission had taken place at an unfortunate time. The Japanese Military Authorities are at the moment very powerful, and the Foreign Office cannot stand up to them. (He thought that the Military Authorities may take advantage of trouble in Shanghai to bring matters to a head in the Northern Provinces). He thought that in view of the power of the Military Authorities and the Japanese objections to foreign loans for China, it is most unlikely that Japan will endorse the scheme, but said that if he were in your place he would allow time for excitement to die down and would then return to Tokyo, and if you do not obtain the blessing of Japan, arrange for the issue of a British loan without Japanese participation.

Tomita said that he doubted whether the nationalisation of silver will be effective except in and around Shanghai, and the resources of China will probably be

insufficient ...

insufficient to prevent a further slump in the value of the dollar. Also, he doubted whether the Chinese outside the big cities would take readily to paper money. He thought, therefore, that a small foreign loan would be insufficient to keep the Chinese dollar stable, and that if we gave them a small loan, they would constantly be coming back and asking for more. I said that the success of the Chinese scheme must largely depend on sympathy from other countries, especially Japan, and I thought it very shortsighted of the Japanese not to afford such sympathy.

Addressed to Shanghai No.57, repeated to Tokyo No.226.

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NO DISTRIBUTION.

Cypher telegram to Sir J. Brenan (Shanghai),

Foreign Office, 13th November, 1935. 7.00 p.m.

No. 58.

IMMEDIATE AND SECRET.

Following from Treasury for Sir F. Leith-Ross.

Your Treasury telegram No. 28.

1. We cannot reply to the difficult questions raised in paragraph 6 of your telegram until there has been opportunity for Ministers to consider them.

2. We are anxious to keep in consultation with Japan, America and France in accordance with initial undertakings and to carry them with us. Subject to that we are concerned with American and French opposition only so far as it may raise practical difficulties. Both China and Hongkong need to sell silver. We think Ministers will want your advice as to what will happen if United States of America refuses to buy. Will success of Chinese and Hongkong schemes be merely delayed or does it become unattainable without very large sterling loans?

3. Meanwhile we agree you should in any case stay on to watch developments and to press for settlement of railway defaults. We also agree that details of scheme should continue to be worked out and that you should keep in touch with Japanese and American Ambassadors.

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India
Financial Dept

In any further communication on this subject, please quote
No. F6579/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

P.Z. 8297 1935
19 NOV 1935

THE Under-Secretary of State for Foreign Affairs presents his compliments to The Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

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18/11

Foreign Office,
18 NOV., 1935.

8195
pp ~~8204~~.

P.Z 492/35.

Reference to previous correspondence:

Description of Enclosure.

Name and Date.	Subject.
HM Ambassador Tokyo Despatch No 483 of 27 Sept 1935	Sir F Leith-Ross' mission to China

MAILS BRANCH
19 NOV 1935
INDIA OFFICE

ENCLOSURE IN SECRETARY LETTER
NO. 47 21 NOV 1935
FROM SECRETARIAL, POLITICAL AND
SECRET DEPT. INDIA OFFICE

Similar letter sent to Dut

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1935

CHINA. October 18, 1935.

CONFIDENTIAL. SECTION 3.

[F 6579/6/10]

Sir R. Clive to Sir Samuel Hoare.—(*Received October* 18.)

(No. 483.)

Sir, *Tokyo, September* 27, 1935.

I HAVE the honour to enclose translation of an article from the *Asahi*, which has aroused considerable interest among my colleagues, regarding the mission of Sir F. Leith-Ross. The French, Soviet and Belgian Ambassadors have all questioned me as to its accuracy. Unfortunately there is sufficient truth in the article to make it a little difficult to reply convincingly without deliberate disregard for veracity. However, I made a point of saying to all three Ambassadors that there had been no question of our offering as a bargain to recognise Manchukuo in return for Japanese participation in a loan to China. Moreover, although the question of currency reform had naturally been discussed, this had only been in the most general terms and no mention had been made of a loan of any specific amount. Sir Frederick had not been in a position to discuss such details before his arrival in China, and before he had had an opportunity of hearing the Chinese views.

2. At the same time I would invite your attention to the Vice-Minister for Foreign Affairs' remark to Sir F. Leith-Ross on the subject of the recognition of Manchukuo, as recorded in my telegram No. 248 of the 17th September, that "it was more in the interest of China to recognise Manchukuo than of Manchukuo to seek recognition."

3. For the past year we have had reason to know that Japan was not only indifferent to the recognition of Manchukuo by the Great Powers, but actually preferred that things should remain as they are. Recognition by China is not on quite the same footing as recognition by the Powers and it is difficult to believe that the Japanese are equally indifferent to the former, or that Mr. Shigemitsu honestly thinks that China has any definite advantage to gain by recognition. In any case he displayed some anxiety lest His Majesty's Government should assume the rôle of honest broker between China and Japan with a view to obtaining recognition of Manchukuo by the former.

4. A recent article in the Tokyo *Nichi Nichi* states that opinion in favour of recognition is gradually gaining strength in the British Cabinet, as His Majesty's Government now realises the advantage in her own interests of recognising Manchukuo. Accordingly, continues the article, "When Sir F. Leith-Ross was sent to China he was instructed thoroughly to investigate the triangular relations of Manchukuo, China and Japan and it is understood that in his conversations in Tokyo Sir Frederick drew a definite demarcation line between China and Manchukuo. It is presumed, therefore, that the British Government may seriously consider the recognition of Manchukuo after Sir F. Leith-Ross has submitted his report on his return to London. Great Britain, however, is the leading influence in the League of Nations whose policy of non-recognition would be seriously affected thereby."

I have, &c.
R. H. CLIVE.

Enclosure.

Extract from the Japan Advertiser *of September* 25, 1935.

LEITH-ROSS, CHINA AND JAPAN.

THE conversations which Sir Frederick Leith-Ross, head of the British mission to China, held with the authorities of the Finance Ministry and the Foreign Office, while he was here some time ago *en route* to China, aroused considerable public interest. Now he is in China, having arrived at Shanghai on

the 21st September, and is holding important talks with Mr. T. V. Soong, chairman of the board of directors of the Bank of China, and other Chinese leaders.

Hitherto it has been conjectured that the object of the British mission is not only to investigate economic and financial conditions in China, but also to sound the views of the Japanese Government on the question of international assistance in the rehabilitation of China. Exactly what Sir Frederick was up to while he was in Japan is now revealed by a message from our correspondent at Shanghai.

According to our correspondent, while he was in Japan Sir Frederick proposed Japanese participation in an international loan to China to the Japanese authorities. According to his plan, an international syndicate would advance 200 million Chinese dollars to China for use in the reform of the Chinese currency, the loan to be in the form of credit at London, and a British adviser would be appointed to supervise the administration of the funds. In submitting the proposal it seems that the British envoy expressed the view that, in return for Japanese participation in the proposed international scheme, Britain would recognise Manchukuo and make endeavours to persuade China to do likewise.

Now there is no doubt that by helping China to get out of her financial and economic difficulties Britain wishes to safeguard her interests and secure her market in that country. The proposed international loan to China recalls the attempt made by China to secure a similar loan last year. In that case China approached Britain through the Hong Kong-Shanghai Banking Corporation. Britain acquiesced in the proposal, and approached Japan and the United States with request for participation in the proposed loan. The United States was not very enthusiastic over the idea of international assistance for China, but did not raise objections to the idea in principle. Japan had views of her own on the question of extending financial aid to China and for this reason she opposed the scheme, with the result that the project fell through. The failure of the international scheme for assistance to China did not prevent Britain from helping China independently of the others. It is a known fact that after the international scheme failed to materialise the British Government caused the Hong Kong-Shanghai Banking Corporation to advance a loan to China to be used for the stabilisation of exchange. The despatch by the British Government of Brigadier-General Frederick Hammond to China to investigate the railways there was part of a plan to assist in the rehabilitation of China. Of late there has been increase in British activities in China, as witness the feat of a British banking house in China, which has advanced a loan of 10 million Chinese dollars to the Nanking Government for use in the rehabilitation of the mining industry in China. The loan contract was signed between the banking house and the representatives of the business affairs department of the National Government in Shanghai on the 15th September. Incidentally, the increased activities of Britain in China seem to have been stimulated by Japan's penetration of North China.

It is clear from the proposals made by Sir Frederick to the Japanese Government that the British Government holds to the idea of an international loan to China, despite the fact that the project for a similar loan advanced by Britain last year failed through Japanese opposition. The British ought to be fully aware of the fact that international loans to China in the past have proved mischievous, and that they have not benefited the Chinese people, having been squandered by a section of the officials of the National Government. How are we to explain that Britain should be concerned in a loan to China which will not be remunerative, and which cannot be popular with the Chinese people at large who have reason for thinking it will prove injurious to their country in the long run? The explanation is not far to seek. Britain desires the stabilisation of economic and financial conditions in China with Shanghai as the centre in order to safeguard her interests. Hence the proposal for the establishment of credit for China at London, with a British supervisor of the use of loan. We are forced to the conclusion that in framing the plan Britain thought of the possibility of dragging China into the sterling *bloc*. We do not suggest that the sole aim of Britain in proposing international help for China is to get China into the sterling *bloc*. It is hard to disagree with Sir Frederick when, in replying to a question by our Shanghai correspondent who apprehended lest the establishment of credit for China at London should lead to a situation in which that country

might be dragged into the sterling *bloc*, he said that there was no foundation for such fears, pointing out that there would be nothing about China linking her currency with sterling when the Japanese exchange is actually based on sterling. Collating all reports, Sir Frederick has a more ambitious programme than that of inducing China to link her exchange to sterling. His mission in Japan was to put Britain in good standing with Japan to agree to the British view of how things are to be done in China in return for some political concessions. But if he thought that Japan can be induced to agree to any ambitious project for financial assistance to China if she is promised British recognition of Manchukuo, he was under an illusion. The question of recognition of Manchukuo has nothing to do with the question of joint assistance for China. It must be remembered that Japan is not against the principle of assisting China. She only considers that the present is not the right time for the Powers to come to the aid of China. Japan will be only too glad to participate in any international scheme for assistance to China when that country adopts a policy which gives hopes that the relations between Japan, Manchukuo and China will be adjusted.

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BRITISH POLICY IN CHINA

JAPANESE ARMY'S SUSPICION

DISLIKE OF FOREIGN LOANS

FROM OUR OWN CORRESPONDENT

TOKYO, Nov. 11

Fears that the excitement in Shanghai caused by the murder of a Japanese marine might develop into another incident were lightened to-day by the attitude of the Japanese Foreign Office, whose officials have expressed their confidence that the affair will be settled locally.

Although the Foreign Office is still "seriously considering" Sir Frederick Leith-Ross's suggestion that a loan might be granted to China by a consortium of Powers, including Great Britain and Japan, officials admit that it has little chance of obtaining Japanese approval. They point out that it conflicts with two principles which Japan has declared to be fundamental:—first, that all foreign loans to China are undesirable, and, secondly, that China must recover by her own exertions.

ALLEGED BRITISH AIMS

The War Office to-day admitted the substantial accuracy of the reports which were published as the views of the Army after the Press Conference at the War Office on Saturday. These not only criticized the Chinese currency plan, but gave the public a remarkable description of British policy. Representatives of the Army, several of whom were present, repeated the rumours that a loan of £50,000,000 was contemplated, and that Great Britain was demanding that only British subjects should be appointed Inspector-General of Customs, that a British subject should be appointed financial adviser to the Chinese Government, and that an Anglo-Chinese Financial Commission should be organized. "If these rumours are true," it was stated, "they are tantamount to asking the Nanking Government to sell China in order to relieve their plight. They would make China, which is already a semi-colony of foreign countries, a financial protectorate of British capital, and would lead to a fatal confrontation with Japan."

After these utterances by the War Office it would seem to be unnecessary for the Foreign Office to consider Sir Frederick Leith-Ross's suggestion.

** The attitude of the Japanese War Office towards the suggestions made by Sir Frederick Leith-Ross to the Chinese Government appears to be based upon a complete misapprehension of their nature. The suggestions, which were communicated to the Japanese Ambassador in China by the British expert and which the British Ambassador in Tokyo explained to the Japanese Government, have been interpreted as cut and dried proposals, which they were not. They were made by the British Government in the hope that the Governments of the United States, France, and Japan would cooperate in the stabilization of Chinese currency and the rehabilitation of Chinese finances. The attainment of these objects would benefit the Japanese trader with China as much as it would benefit merchants of other nations. There appears to be no foundation for the belief of the Japanese War Office that Sir Frederick Leith-Ross suggested the organization of an Anglo-Chinese Financial Commission, while the rumour of a British loan of £50,000,000 to China is scouted in financial circles in this country.

JAPAN AND CHINESE CURRENCY

CHORUS OF DISAPPROVAL

FROM OUR OWN CORRESPONDENT

TOKYO, Nov. 10

Opinion here condemning the Chinese currency plan has crystallized, and the War and Foreign Offices have lost no time in intimating to the vernacular newspapers that they are in agreement with their disapproval of the scheme.

All the newspapers maintain that the cardinal fault was the failure of the Chinese to obtain Japanese approval before launching the project. Lieutenant-General Furusho, the Vice-Minister of War, said that in view of her responsibilities as the chief stabilizing factor in the Far East, Japan could not look on with folded arms. He declared that the Nanking leaders, by seeking foreign loans, had revealed the insincerity of their professions of readiness to cooperate with Japan. Foreign Office officials have expressed their regret that China launched the scheme without consulting Japan.

The vernacular newspapers are unanimous in their condemnation. The *Asahi*, which on Friday said that it would not become Japan to obstruct the scheme, declared to-day that the Nanking Government had made a false step in ignoring all countries except Great Britain, and that Great Britain had miscalculated through her haste to assist China and to protect British interests without considering the actual situation.

The Shanghai shooting case has diverted the newspapers from the currency plan to-day, but it fills their columns with fresh matter tending to inflame public opinion against China.

HONG-KONG SILVER EMBARGO

A WELCOME DECISION

FROM OUR CORRESPONDENT

HONG-KONG, Nov. 10

The Hong-kong Government's embargo on silver is generally welcomed, as it reduces the public clamour that the banks should redeem their notes with silver dollars, which are worth 7d. more in the world market.

It is understood that the embargo was imposed just in time to prevent further large shipments of silver. According to the figures of the banknote circulation to October 31, the silver and note reserves of the banks have fallen by $48,650,000 since June 30, and at present represent 75 per cent. of their cover, the remainder being sterling securities. The Government's new coinage measures do not peg the dollar, but are intended temporarily to relieve the currency shortage arising from silver hoarding, as a result of which the silver dollar has entirely disappeared from circulation. Government paper dollars will be available on Tuesday. The Government's action is expected to have a steadying effect on the exchange and on prices.

After some uncertainty Canton has apparently fallen into line with Nanking, though local notes are declared legal tender.

THE CHINESE REFORMS

"SLIGHT" TO JAPAN

TOKYO AND POLITICAL ASPECTS

FROM OUR OWN CORRESPONDENT

TOKYO, Nov. 5

In the absence of detailed reports from the Japanese Minister in Peking, Mr. Ariyoshi, officials here refrain from commenting on the Chinese Government's currency plan, but point out significantly that its political aspects are more important than its financial aims.

Press dispatches from China asserting that Japan has been slighted and her offer of cooperation rejected give a clue to the political consequences which officials foresee. Mr. Hirota's policy towards China assumed that Japan's aims could be achieved by negotiation with Nanking. Many Army leaders thought, on the contrary, that any policy based on General Chiang Kai-shek's good faith was doomed to failure, though they apparently consented to give Mr. Hirota's methods a trial. The currency plan and the alleg British loan are not regarded by the Arn or by Japanese generally simply measures for financial rehabilitation, b as a victory for Mr. T. V. Soong (t Governor of the Bank of China) and t anti-Japanese elements in Nanking.

General Kawashima, before departi for manoeuvres to-night, told reporte that the currency plan convicted China insincerity. Japan, he added, was reac to take positive measures if necessary fc the protection of Manchukuo again Communist movements. Thus the polit cal consequences which may follow i Japan are the abandonment of M Hirota's "negative" policy of diplomac with Nanking in favour of the Army positive policy, which favours the forma tion of a North China *bloc* in which th Japanese aims can be achieved inde pendently of Nanking.

Japanese officials and bankers in Chin were evidently taken by surprise. Ther are signs that a Press attack on the Foreig Office for being outwitted is impending First impressions in the newspapers ar uniformly critical of the plan and of wha they allege to be Great Britain's part in it.

troops hundreds of workmen are labour

as the crow flies. In the rear of the

at Makale, which lies about 15 miles away

at Agula before making the final thrust

Generals Birolì and Santini will assemble

columns of the Italian forces under

Some correspondents believe that the main

limited to small raids and demonstrations.

Their activity in the latest operations was

have been occupying for some weeks.

strongly fortified positions which they

Maravigna have not moved from the

On the right flank the troops of General

on the Geralis plateau and the villages of

Dodassa Schenai and Debra Sahalan.

The right centre column of Blackshirts and

native troops commanded by General

Birolì, which advanced in two sections, has

reached Addi Wegeno and Mount Magab

torrent Selce about 12 miles from Agula.

while its advanced guards have crossed the

the southern spurs of Mount Solah Gamet,

pied Dongille, south of Bet Maram, and

column, under General Santini, has occu-

Makale towards Agula. The left centre

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INCREASED CONFIDENCE IN SHANGHAI

FROM OUR CORRESPONDENT

SHANGHAI, Nov. 5

It is too early yet to determine the full reactions here to the Government's currency scheme, but first impressions are favourable. The market has been steady, with a distinctly buoyant tendency, although it is realized that the prevailing depression will not yield to rapid treatment. The great point is that the scheme has enabled a more confident feeling to develop.

So far no signs of reluctance to forgo silver dollars have appeared, although a tendency to immediate raising of prices exists with some retailers, who are either seeking to profiteer or are inclined to distrust the new scheme. The British Ambassador's proclamation giving British banks cover for cooperating with the Chinese Government has undoubtedly made a favourable impression.

JAPAN AND CHINESE CURRENCY

ATTITUDE TO FOREIGN LOAN

FROM OUR OWN CORRESPONDENT

TOKYO, Nov. 7

Mr. Hirota, the Foreign Minister, informed the Cabinet to-day that he had received assurances from Sir Robert Clive, the British Ambassador, that Great Britain had not concluded a loan to China and had no foreknowledge of the currency decree. The Cabinet did not discuss the matter at much length, the Ministers, according to the vernacular newspapers, not being satisfied that the information before them was yet complete.

Sir Robert Clive's explanations, which were given to Mr. Shigemitsu, Vice-Minister for Foreign Affairs, yesterday evening, were promptly communicated to the Press and have assisted in clearing away the prejudice created by the first reports from Shanghai. Officials are satisfied that the Chinese alone were responsible for the suddenness with which the currency plan was announced.

The question of a loan is being studied, though it is a proposal that has been inordinately attacked. The *Asahi*, however, now discusses it in terms which contain a germ of approval. It says that though a loan is contrary to Japan's principle of preventing the extension of foreign influence in China, currency reform, as a practical question, requires financial assistance such as Great Britain seems willing to provide. Possibly Great Britain's acknowledgment of Japan's right to be consulted would furnish an excuse for waiving that fundamental principle. The state of Army opinion, which is vital in all matters affecting China, cannot be gauged, as the majority of the Staff have left for manoeuvres.

SELF-HELP IN CHINA

JAPAN AND REFORMS

SIR F. LEITH-ROSS'S EXPLANATION

FROM OUR OWN CORRESPONDENT

TOKYO, Nov. 6

The report of Mr. Ariyoshi, the Japanese Ambassador to China, of his conversation with Sir Frederick Leith-Ross, who is investigating economic and financial conditions in China on behalf of the British Government, has noticeably cleared the atmosphere. It is now understood that the Chinese Government currency plan was hastily promulgated under fear that runs on Shanghai banks would precipitate a panic. The Japanese Foreign Office accepts Sir Frederick's assurances, and is abstaining from taking action while bankers investigate the situation. The *Asahi* reports that Japanese banks in China claim that they should receive the world price for their silver or be permitted to export it.

In the meantime the Japanese, partly relieved of their fear that China and Great Britain had stolen a march on them, are turning their attention towards the scheme itself. Certain points of it should be acceptable to them in view of their own actions and utterances. They are at present engaged in taking measures to maintain the Manchukuo currency at a parity with that of Japan, and the Chinese plan, if successful, would give stability throughout the Far East at the same rate to sterling as Japan has herself maintained for three years.

The declaration of Mr. H. H. Kung, the Chinese Minister of Finance, that China can stabilize without foreign assistance, accords with Mr. Hirota's maxim that China should seek salvation by self-help. The Japanese, however, are not yet convinced that China is able to stabilize unaided, and in spite of Sir Frederick Leith-Ross's statements there remains a suspicion that the British Government's swift action in support of the Chinese plan can be explained only by a secret understanding. All shades of opinion here are united in demanding that Japan be consulted before any foreign Power takes steps in China, and some time must elapse before the impression created by the first reports from Shanghai is eradicated.

BRITISH LOAN TO CHINA DENIED

FROM OUR CORRESPONDENT

SHANGHAI, Nov. 6

Sir Frederick Leith-Ross to-day repeated his denial that the Chinese currency scheme had resulted from an arrangement for a British loan or credit, and made clear that the Chinese Government had been compelled to act by the market situation without assurances of a loan from the Powers. Nevertheless, a loan would be useful to a country in China's condition, and he hoped that it might eventually be arranged with the co-operation of other Powers, including Japan.

Sir Frederick was not surprised by the general lines of the currency scheme, as the abandonment of silver was widely anticipated, but he was surprised at the rapidity of its enforcement without external support. It was based on self-help, and he wished it success. The silver reserves held by the three Chinese banks were sufficient to tide over the Government until the trade balance was more favourable.

Messages from Shanghai and Peking on the Kuomintang Congress and Japanese military activity in North China appear on page 13

FINANCIAL DIFFICULTIES IN CHINA

FROM OUR CORRESPONDENT

SHANGHAI, Nov. 1

The fall of the exchange value of the Chinese dollar from 1s. 6d. to less than 1s. 3d. in the last 10 days, added to the extreme weakness of nominal rates, which is destroying confidence and making normal lending transactions a pure gamble, is arousing increased anxiety. The Customs returns for the period from January to September, which show a decrease in imports of $75,000,000 compared with the same period in 1934, indicate the decline in Government revenue. A definite programme of assistance is required to restore confidence and to obviate the danger of the Government's resorting to risky expedients. The renewal of Japanese threats in the North and elsewhere is a complicating factor.

Times 4th Nov.

CHINESE BONDS AND CURRENCY

BANK OF ENGLAND'S ACTION

The following important statement was issued by the Bank of England last evening:—

Arising out of the visit of Sir Frederick Leith-Ross to China the Governor of the Bank of England has set up a committee on which the following gentlemen have been good enough to consent to serve:—Lord Alness (chairman), Mr. O. J. Barnes, Mr. E. Allan Cameron, Mr. Maurice Hely-Hutchinson, and Mr. Charles Hendry.

The purpose of the committee is to provide an organization which will be available in case of need to negotiate on behalf of the bondholders of Chinese Government, railway, and other loans, with a view to the protection of their interests. The committee will be at liberty to co-opt further members.

The joint secretaries of the committee are Mr. John Chaplin and Mr. W. E. Leveson, to whom communications may be addressed at 9, Gracechurch Street, London, E.C.3.

The action of the Bank of England will be welcomed by bondholders, for although it is a precautionary measure the possibility of difficulties arising is evident from the serious unsettlement of the Chinese exchanges caused chiefly by America's silver-buying programme. The American policy has led to a great export of silver from China in spite of efforts by the Chinese authorities to prevent it; the present position is that China has been virtually forced off the silver standard.

The Chinese national debt, according to the latest available figures, amounts to about £100,000,000, of which over £60,000,000 is held abroad. As pointed out in our City columns, the amount of Chinese bonds quoted in the *Official List* of the Stock Exchange is in excess of £31,000,000, and about £8,000,000 of this amount is in default or in arrears.

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CURRENCY POLICY IN CHINA

4th Nov.

ALL SILVER CALLED IN

A MODERN CENTRAL BANK

Drastic currency and financial reforms have been put into force by the Chinese Government. They are designed to give China an up-to-date system of banking, a balanced Budget, and a stabilized currency. They involve the abandonment of the old silver standard and its replacement by an inconvertible paper currency which will be managed with the object of keeping its present value in terms of sterling at the existing level. Briefly the scheme provides that:—

(1) A new paper currency shall take the place of the ancient silver dollar.

(2) The existing bank note issues shall be withdrawn and replaced by one single note issue.

(3) This note issue will be the monopoly of a modern Central Bank.

(4) The Government-owned Central Bank will be reconstructed and converted into a modern Central Bank, which will be charged with maintaining the stability of the currency.

(5) The new paper currency will be inconvertible.

(6) The formal monopoly of the note issue will come into force in two years.

(7) The Budget is to be balanced within 18 months.

(8) All silver will be nationalized on much the same lines as gold has been nationalized in the United States.

The Chinese currency system has been thrown into a more or less chaotic state ever since the United States Government began its silver buying programme. Hence the present reforms. The new scheme will be welcomed generally because it promises to put the finances of China for the first time on a solid basis. It is true that the scheme only deals with the machinery, but it is drawn up in accordance with the most modern practice and the most successful principles of banking organization.

The new committee formed to represent Chinese bondholders, which was announced on Saturday, has not come into being because further defaults are feared, but in order that it shall be in a position to watch over the interests of bondholders generally during the working out of the new reforms, and in particular the interests of holders of bonds in default, partially or wholly.

CENTRALIZED NOTE ISSUE

According to a Reuter telegram from Shanghai, the announcement issued by the Chinese Government states:—

1.—Bank notes issued by the three Government banks—namely, the Central Bank of China, the Bank of China, and the Bank of Communications—shall be full legal tender and the bank note reserves of the three banks shall be placed under unified control. Notes of all other issuing banks will continue in circulation but will gradually be withdrawn and replaced by notes of the Central Bank. No new notes are to be issued by these banks, and all their unissued notes as well as their bank note reserves are to be deposited with the Central Bank.

2.—All debts expressed in terms of silver shall be discharged by payment of legal tender notes of the nominal amount due.

3.—All holders of silver are required to exchange their silver for legal tender notes.

4.—The exchange value of the Chinese dollar will be kept stable at the present level, and for this purpose the Government banks will buy and sell foreign exchange in unlimited quantities.

Measures have also been prepared to strengthen the commercial banking system, the announcement goes on to say, giving increased liquidity under sound conditions to the commercial banks. These include the creation of a special institution to deal exclusively with mortgage business.

Plans have been completed by which the National Budget will be balanced within 18 months.

The Government is determined to avoid inflation and will take energetic measures to deal with speculation and attempts to bring about unwarranted increases in prices.

NEW CURRENCY IN CHINA

FIRST DAY OF THE REFORMS

DOUBTS IN JAPAN

FROM OUR OWN CORRESPONDENT

TOKYO, Nov. 4

The Chinese plans for currency reform are being studied here with great interest, but both officials and bankers are sceptical about the practicability of nationalizing silver. Exchange bankers do not believe that the withdrawal of silver from circulation is possible except in a limited area, and predict that efforts to enforce nationalization in the interior will cause disturbances.

The *Japan Times* says that the suspension of the convertible note system will create chaos in China, where people cling to a metallic currency, but thinks that the exchange stabilization plan may succeed provided that Great Britain furnishes credit. It holds that the only effective remedy for the evils which have come from the rising price of silver is devaluation, and points out that the linking of Chinese currency to sterling virtually amounts to devaluation.

SIR F. LEITH-ROSS'S VIEW

SHANGHAI, Nov. 4.—The Exchange Market was busy to-day following the coming into force of the Government decree nationalizing silver throughout China and effecting other monetary changes. The market was steady and orderly. The Exchange Equalization Committee had fixed the official rate for sterling at 1s. 2¼d., compared with Saturday's rate of 1s. 8 11-16d., and in the market sterling remained throughout the day at 1s. 2 9-16d. To-day the export duty on bar silver was 65 per cent., compared with 14½ per cent. before.

The position of British bankers has been defined by regulations issued by the British Ambassador under a China Order-in-Council. British subjects are prohibited from "making payment in silver in whole or in part in respect of any debt or other obligation" in contravention of the Chinese Government's decree nationalizing silver. Offenders are liable to imprisonment with or without hard labour for a period not exceeding three months or a fine not exceeding £50, or both.

Sir Frederick Leith-Ross, Chief Economic Adviser to the British Government, who is on a visit to the Far East, stated to-day that the Chinese Government were solely responsible for the new policy, the success of which would benefit both British and Japanese trade.

He commended the Chinese Government for having had the courage to embark on the new currency scheme. He thought the scheme would be successful, provided that safeguards such as a balanced Budget and a strengthened banking system were fully carried out. He ridiculed the suggestion that the Chinese Government's action was inspired by assurances of a loan from the Powers with which to support her currency. China's silver resources would be sufficient to tide her over until her balance of trade was rectified by the operation of a stable exchange, which he believed could be maintained without any loan.

Mr. T. V. Soong, director of the Bank of China, declared to-day that China's silver reserve would provide more than 100 per cent. cover for the banknote circulation in terms of foreign currency.—*Reuter.*

8/89.

Registry

Copy of all these telegrams to India (a batch of spare copies) are with them)

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13/11

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NO DISTRIBUTION.

Decypher. Sir F. Leith-Ross (Shanghai).
9th October, 1935.

D. By wireless 10th October, 1935.

R. 4.15 p.m. 10th October, 1935.

No. 4.

.....

Secret and Personal.

Following for Sir W. Fisher Treasury telegram No. 3.

My telegram No. 2 part I.

I understand some time ago United States Government agreed to purchase any silver immediately available F.O.B. Shanghai and after delivery to pay in gold free for export from United States. In view of uncertainties of American policy Chinese Ministers are apprehensive that this understanding may not be adhered to. But if definite contracts are completed on this basis question will arise (a) how credit can best be arranged on silver pending delivery and (b) how sterling can best be provided against gold when paid. United States Treasury might help on former point, could British Treasury help in the latter.

Addressed to Foreign Office No. 4 October 9th, repeated to Peking.

ENCLOSURE IN WEEKLY LETTER
NO. 47 21 NOV 1935
FROM SECRET, POLITICAL AND
SECRET DEPT. INDIA OFFICE

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1935

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NO DISTRIBUTION.

Decypher. H.M's Consul-General (Shanghai).
12th October, 1935.

D. 4.47 p.m. 12th October, 1935.

R. 5.00 p.m. 13th October, 1935.

No.5.

XXXXXXXXXXX

IMPORTANT.

Following from Sir F. Leith Ross for Sir Warren Fisher, Treasury telegram No.4 begins:-

Secret and Personal.

Yesterday evening Doctor Kung handed me further memorandum representing definite views of himself and Soong on the points raised in part 4 of my telegram No.1 to Treasury of October 9th to which numbers below refer:

1. Negotiations are being initiated.

2. Can definitely be arranged.

3. (a) Majority holding of Central Bank shares will be sold gradually to public with corresponding representation on Directorate. I had stated that this would be done within six months.

(b) Note issue to be concentrated with Central Bank but for two years Banks of China and Communications to issue their notes within fixed limits as agents of Central Bank. This seems to us satisfactory.

(c) Was not mentioned in memorandum. I had explained that government did not wish this treated as political matter but thought Central Bank

sure ...

sure to approach Bank of England or Bank for International Settlements Directorate for a central banking expert. This seems to us satisfactory, but I assume the Bank of England would in any case wish request to be passed to them in the first instance.

(d) Proposal for creating a special institution, e.g. State Mortgage Bank to take over and liquidate frozen banking assets. Proposal not yet worked out and will need further consideration.

(e) Only new points are proposals to issue limited amount of 90 days Treasury Bills and to get banks to take longer dated bonds in exchange for securities held as note cover.

2. Kung asked me to transmit these replies to London and hoped for early indication as to loan possibilities. I said I would do so, but that apart from technical machinery London would probably stipulate for certain conditions. First, maintenance of customs administration. Minister agreed to this. Second some action on debt defaulters. Minister argued that they were doing their best but reconstruction must come first. I said I expected London would want actual settlement of some special cases e.g. Tientsin Pukow loan, and some assurance that settlements would be negotiated in other cases. Kung made no comment. Third, I said there were many complaints of commercial discrimination and referred to suggestion made by Sun Fo that a joint committee of Chinese government and foreign commercial representatives should be set up to discuss grievances and methods of settlement. Minister thought this might be done. I think it would be a useful step.

3. Kung ...

3. Kung asked me if Hongkong and Shanghai Bank would participate in loan, I said I felt sure they would if loan had approval of His Majesty's Government. He then asked me if other consortium banks would be approached. I said certainly, and I hoped they would participate. Kung said that Chinese government also desired this. He then asked me about Japanese attitude. I said I hoped they would agree to participate, but that if necessary I was prepared to go to Japan. Kung thought this might be necessary. He finally asked me whether if others refused we would go on alone. I said that if the situation arose I should have to consult London. It would clearly be better to get others to participate, but my own view was that we could not allow others to veto a scheme which we thought reasonable. Kung again said he needed fifteen minimum and I said that ten net was probably the maximum possible.

4. I promised to let Kung know as soon as I get your reply. Scheme has been placed under a strong Cabinett committee of five including Kung and Soong and the latter anticipated no difficulty in getting agreement of colleagues. They would like launch of scheme in four or five weeks.

Addressed to Foreign Office telegram No.5, October 12th, repeated to Peking.

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NO DISTRIBUTION.

Decypher. Sir F. Leith-Ross, (Shanghai),
15th October, 1935.

D. W/T. 16th October, 1935.

R. 6.00 p.m. 16th October, 1935.

No.8.

-o-o-o-o-o-o-o-o-o-o-

Following from Sir F. Leith-Ross for Sir .. Fisher, Treasury, telegram No.6.

Personal and Secret.

I fully appreciate need of Japanese co-operation and recent press statements from Tokyo are more hopeful. But I cannot usefully pursue discussion with Japanese until tentative programme has been settled satisfactorily to you. As regards defaults you will have seen from my telegram No.5 to Foreign Office that I anticipated you would require settlement of some special cases such as Tientsin-Pukow and Hukuang loans. I suggest these can be singled out because of their contingent claim on Customs. For the rest we should ask for assurance that negotiations will be pursued as rapidly as possible but I doubt whether Vickers and Marconi loans can expect either sympathy or cash here. Henchman to whom I have spoken doubts whether anything much can be obtained at present even for Tientsin - Pukow and Hukuang loans.

NO DISTRIBUTION.

Decypher. Sir F. Leith-Ross, (Shanghai),
18th October, 1935.

D. W/T. 18th October, 1935.

R. 5.00 p.m. 18th October, 1935.

No.12.

-o-o-o-o-o-o-o-

Following for Sir W. Fisher, Treasury, No.9.

Reference Foreign Office telegram No.28, October 17th, to Shanghai. I am repeating paragraph 3 of my telegram No.4 to Tokyo. Yesterday I saw Yoshida, leading Japanese banker here who is leaving today for Tokyo. He gave me a memorandum of his views. He considered present exchange too high and favoured reduction of note cover and moderate inflation. But he urged that China should help herself without foreign assistance. He said Japanese Military were hostile to any foreign loan. I argued that his proposals involved serious risks of currency collapse unless there were adequate safeguards, and while not contesting need for action by Chinese Government I pointed out that it was in everybody's interest to assist them in genuine efforts and thereby maintain confidence. He did not contest my arguments and finally said that if scheme could be prepared which satisfied British banks as regards security Japanese banks would co-operate. Today I saw Aryioshi who has given rather helpful interview to North China Daily News and went over the same ground. He assured me that military officers would not decide economic questions and that Japanese Government earnestly desired success of my Mission. He concurred in Yoshida's last remark. I do not (? group omitted) it safe to go further than such soundings as details of proposals cannot be disclosed without fear of leakages which might precipitate exchange run. Market here is very weak and rumours of devaluation of Shanghai and Hongkong dollar are widespread. If situation is not to get out of hand, we must move as swiftly and secretly as possible.

Addressed to Foreign Office No.12, October 18th, repeated to Peking, Mission and Tokyo.

F.Z. 8195 1935
NO DISTRIBUTION

Decypher. His Majesty's Consul General (Shanghai).
October 18th 1935.

D. 11.32 a.m. October 19th 1935.

R. 10.0 a.m. October 19th 1935.

No.13.

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Following from Sir F. Leith Ross for Sir W. Fisher, Treasury No.10.

Begins:-

T.V. Soong stated that advices received by Nanking Government as to Japanese activities north China are more re-assuring. As regards Japanese co-operation in a loan, he expressed the view that the Japanese will try to prevent a loan but that if they find that we are prepared to place it Japanese banks will participate. He hopes that our desire for Japanese co-operation which he shares will not lead us to divulge the details of the programme prematurely. Suma has told Nanking that His Majesty's Government are keeping Japanese Government fully informed of my conversations but account which he gave did not support his story.

Addressed to Foreign Office No.13 of October 18th, repeated to Peking, Mission and Tokyo.

NO DISTRIBUTION.

Decypher. His Majesty's Consul General (Shanghai)
18th October 1935.

D. 12.05 p.m. 19th October 1935.

R. 9.30 p.m. 19th October 1935.

No. 14.

- - -

Following from Sir F. Leith Ross for Sir Warren Fisher, Treasury No. 11. Begins:-

T.V. Soong tells me that Chinese Cabinet have now given general approval to principles of programme outlined in my telegram No. 5 to the Foreign Office. Central Bank would be made more independent by sale of shares but Governor would have to be nominated by the government and the Minister of Finance would probably retain the post for the time being. Customs priority for new loan to be arranged with the consent of committee of bondholders. Ministry of Railways instructed to negotiate reasonable settlement with Tientsin, Pukow and Hukwang defaulters.

Addressed to Foreign Office No. 14 October 18th, repeated to Peking and Mission.

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COPY.

NO DISTRIBUTION.

Decypher. Sir R. Clive (Tokyo).

18th October, 1935.

D. 1.30 p.m. 18th October, 1935.

R. 9.30 a.m. 18th October, 1935.

No.267.

----------oOo----------

Your telegram No.205.

Secret.

Nothing has occurred recently to modify views expressed in my telegram No.213, August 8th.

Since boycott ended Japanese trade with China has improved. Simultaneously since warning uttered by Minister of Finance there has been slowing down of Japanese investment in Manchuria and further issue of internal bonds. I cannot believe Japanese would seriously consider diverting funds to participate in international loan to China unless there were first class security, substantial benefit to themselves in prospect and considerable control. Since Amau statement in April 1934 press has consistently talked of Japan as solely responsible for peace in Eastern Asia and has deprecated co-operation in China with western Powers except as leading partner.

During Sir F. Leith-Ross's visit neither Minister for Foreign Affairs nor Vice Minister for Foreign Affairs gave any

encouragement/

encouragement to loan idea beyond saying that Japanese Government would carefully consider eventual proposals after his discussion with Chinese, but that I feel was rather gesture of politeness due to the King's letter than conditional instructions to co-operate.

Again I have twice received indirect messages from General Araki that army was nervous of Leith-Ross's activities in Shanghai and that British loan to China would only lead to trouble unless proceeds reached the right quarter namely pro-Japanese element.

Much has been written lately of Japan's illogical China policy on basis of friendship and co-operation between the two countries to exclusion of other Powers.

My conclusion is that it would be rash to count on any Japanese co-operation for currency loan while we must be prepared for opposition from army and in press if loan is sponsored by Great Britain alone, and still more if other Powers participate and not Japan.

If, however, Treasury approve in principle Leith-Ross's proposal subject to satisfactory reply from Chinese would you wish me privately to sound Japanese Government? I would endeavour to avoid publicity and to ascertain, if Leith-Ross returned here to explain proposals in detail, he could hope for favourable reply.

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F.Z.
8195
1935
NO DISTRIBUTION.

Decypher. Sir F. Leith Ross (Shanghai).
October 24th 1935.

D. 1.26 p.m. October 24th 1935.

R. 9.30 a.m. October 24th 1935.

No.18.

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IMMEDIATE.

Following for Sir F. Fisher Treasury:-

My telegram No.14.

I am apparently impatient but I am still awaiting replies to my telegrams of October 9th and October 12th. Meanwhile exchange daily weaker. Market buying foreign currencies and Rogers apprehensive that exchange may get completely out of control making any later stabilization much more expensive and difficult. If we intend to help China to stabilize it is becoming a matter of urgency to settle details of programme and discuss loan possibilities with Henchman. I cannot do this until I know general lines of agreement with you.

2. These general lines seem to me comparatively plain sailing. The scheme corresponds broadly with our views and security is accepted. No doubt many detailed points are open to discussion but are they vital.

3. Japanese will not commit themselves before knowing definite programme but some co-operation seems probable if British banks authorised the issue. I should propose as soon as loan conditions can be

settled

settled with Hongkong and Shanghai Bank they should approach other consortium leaders including Yokohama Specie Bank and we would simultaneously approach the Japanese Ambassador urging approval of participation of Japanese banks. Japanese military hostile to any loan on the ground that it would increase our political influence which they wish to eliminate but if we accept veto of Japanese military our prestige here is gone.

4. Prolonged delay is creating suspicion and if continued may seriously affect authority of my mission here. If business pressure in London causes delay could not the Chancellor give me general approval to go ahead on lines suggested? If delay due to other reasons would you please expedite.

F.Z.
8195
1935

NO DISTRIBUTION.

Decypher. ~~Sir F. Leith Ross~~ H.S.M. Cadogan (Shanghai).
24th October, 1935.

D. (Via W/T.) 5.20 p.m., 24th October, 1935.

R. 6.00 p.m., 24th October, 1935.

No. 64 Tour.

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Your telegram No. 28 Tour.

Where I have offered no comments on Financial Adviser's telegram, it may be assumed that I endorse his views: he has kept in close touch with me.

However desirable a better Sino-Japanese understanding may be I confess that I do not see much prospect of it and cannot quite see that any action that we may propose to assist China will promote it. I believe that Japanese will deliberately refrain from coming to any definite terms with China, partly, it may be, because they are not quite clear as to what they want, and partly because they are confident that they can take what they want by direct (grp. undec.) piecemeal and as and when occasion offers and as their needs become defined.

The Amau declaration of April last year probably remains in spite of "explanations" a fairly accurate statement of Japanese attitude and if that is so, it is evident that Japan cannot welcome any initiative on our part.

We have therefore to consider eventuality that we may find a practicable and desirable scheme for rehabilitation of China's finances and that such a scheme may fail to secure Japanese approval, or even meet with their opposition.

In that event I share entirely view expressed by Financial Adviser in paragraph 3 of telegram No. 4 that we

should ...

could not allow others to veto for no good reason a scheme which we thought reasonable.

If Japanese oppose it they might seek to translate their opposition into actions either by making scheme unworkable or by venting spite in North China or elsewhere. I do not know how far they could succeed in former adventure. I gather Financial Adviser would be doubtful of their success and in any case he can see no reason why they should wish to cause collapse of dollar.

As regards latter there is risk that Japanese military from whom principal opposition to withdrawal of Mission is to be expected might plunge forthwith into action which they have been meditating and for which they are seeking an opportunity. If that means only advancing date of their operation I do not know that much harm (grp. undec.) would be done, but there is always risk that they might be driven into action that they would not otherwise have taken. His Majesty's Ambassador at Tokyo may have views on gravity of this risk though it is difficult to assess it here.

But even assuming this risk to be real, I venture to draw your attention to another aspect of the matter. Financial Adviser of Mission has focused attention on the situation here and on the policy of His Majesty's Government in Far East. As you know, many of leading British firms have been clamouring for assurance that His Majesty's Government will pursue a "stronger policy" failing which they threaten "getting out" of China. They constantly ask "What are His Majesty's Government going to do?" and if it became known that we refrained from a line of action intrinsically sound and desirable on account of ill-founded Japanese objection they would consider that signal had been hoisted and that this watchword was "scuttle".

Addressed to Foreign Office telegram No. 64 Tour 24th October; repeated to Tokyo; copy to Peking.

NO DISTRIBUTION.

Decypher. Sir R.Clive (Tokyo).
23th October, 1935.

D. 7.25 p.m. 28th October, 1935.

R. 2.10 p.m. 28th October, 1935.

No.277.

[illegible]

Despite argument advanced in Sir F.Leith Ross' telegram of October 26th, personal and secret, and political considerations outlined in Sir A.Cadogan's telegram No.64 (tour) of October 24th I submit that Japanese attitude to loan should be very carefully considered before decision is come to.

Loan issued through Hongkong and Shanghai Bank in which Japanese banks are merely invited to participate will almost certainly have hostile reception in Japan. Japanese have shown little interest in Shanghai financial crisis but do they not stand to gain rather than lose in long run by present deterioration of financial position? Japanese losses would be more than offset by much heavier foreign losses especially if important British interests decided to cut their loss and retire. Once British predominance on Municipal Council is gone it can only be question of time before Japanese take our place. Why, then, should Japanese participate in loan main object of which is to serve British interests?

While Japanese military detest Chiang Kai-shek they consider Soong, Kung and most of the American educated

Chinese ...

Chinese as anti-Japanese. Presence of General Okamura in Canton following recent visit there of General Doihara would seem to indicate pressure of Canton against Nanking government. There are fresh indications of Japanese activities in North China, nominally directed against communist activities.

Amau statement of April 1934 certainly represents Japanese attitude, which in past six months has become more aggressive and more intolerant of foreign interests.

I believe therefore that to proceed with loan proposals without keeping Japanese fully informed would probably induce an outburst of hostility. I agree that return of Sir F. Leith Ross now to Japan would invite undesirable publicity but I would suggest my communicating to Vice Minister for Foreign Affairs and to Vice Minister of Finance any proposals from him under strict confidence.

Admittedly, if Japanese declined to participate after being kept fully informed they would have no reasonable ground for complaint, but His Majesty's Government in accepting challenge implied in Amau declaration would have to weigh risks involved in a British loan or a consortium loan without Japan.

Addressed to Foreign Office: repeated to Shanghai for Sir F.Leith Ross and Sir A.Cadogan.

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F.Z.
8195
1935

NO DISTRIBUTION.

Decypher. Sir F. Leith Ross. (Shanghai).
October 28th. 1935.

D. 12.20.a.m. October 29th. 1935.

R. 6.00.p.m. October 28th. 1935.

No. 23.

Immediate.

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Following from Sir F. Leith-Ross for Sir W. Fisher, Treasury telegram No. 18.

Kung anticipates that he will be compelled to announce unified note issue, concentration of reserves and unconvertibility during next few days. He realises risk to exchange but hopes to counteract it by statement that no inflation is intended but only safeguarding national silver resources and he would use his reserves to maintain the rate temporarily. I have strongly urged him to defer action so as to give you time to decide principle of loan. He agreed that it would be better to defer the announcement if there is chance of loan being announced simultaneously but asked how long that would take and what prospects there were. I reminded him that I had not had any reply about railway defaults. He replied that he would again press Minister of Railways.

My comment is as follows:

I do not think you need be rushed unduly. From political standpoint there is something to be said for Chinese Government taking action independently. I think once loan is agreed it will be difficult to insist on conditions. But there is the risk that announcement in advance of any assurance of new standard or of outside resources may fatally prejudice the whole programme so I will do what I can to hold up action in the hope that your definite answer will be forthcoming soon.

F.Z.
8195
1935

NO DISTRIBUTION

Decypher. Sir F. Leith Ross (Shanghai).
28th October 1935.

D. 12.15 a.m. 29th October 1935.

R. 5.25 p.m. 28th October 1935.

No. 24.

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IMMEDIATE.

Following from Sir F. Leith Ross for Sir W. Fisher, Treasury No. 19.

I saw Japanese Ambassador this morning with Sir A. Cadogan and spoke to him on lines of message to Tsu proposed in paragraph 3 of my telegram No. 20. He said that exchange situation was causing apprehension in Tokyo but he did not think that his government could decide regarding co-operation in loan unless concrete proposal was available. I told him that I had no definite instructions from you but that my idea was loan of twelve million pounds to be raised in Shanghai for currency purposes and to be secured on Customs priority charge. I asked him to inform Tokyo in confidence and ascertain if they would approve of participation of Japanese Banks. He asked me to let him have a note text of which I will cable you if you wish.

At the end of the conversation I said that London would want assurances that Customs would be maintained under British Inspector-General of Customs and foreign recruitment be resumed. He agreed without hesitation on both points and said that he himself did not object to British Inspector-General of Customs if they had Secretary-General. I am asking him to confirm.

Addressed to Foreign Office No.24, repeated to Tokyo.

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F.Z.
8195
1935

NO DISTRIBUTION.

Decypher. Sir A. Cadogan (Shanghai).
29th October, 1935.

D. By wireless 29th October, 1935.

R. 6.0 p.m. 30th October, 1935.

No. 67. TOUR.

.....

Sir F. Leith Ross' telegram No. 19 to Sir Warren Fisher.

The Japanese Ambassador called on us this morning and Sir F. Leith Ross gave him note summarising the information given him yesterday and making the point about the continuance of British Inspector General of Customs.

On this point the Japanese Ambassador said that (? he was) sure His Majesty's Government would have no desire to take this post out of British hands. On the other hand the number of Japanese officials in the Customs was very small and the position of senior Japanese kishimoto required regularising.

We pointed out that the number of the Japanese in the Customs service had necessarily been reduced since the separation of Manchurian customs but that if the recruitment of foreign personnel were to be resumed this might easily be remedied.

He suggested that a post of Deputy Inspector of Customs might be created to be held by a Japanese and we told him that we thought there could be no objection to this on the understanding that the holder of the post would not have the reversion of Inspector General of Customs post which must remain in British hands. We know Inspector General of Customs favours such a plan.

I will inform the Inppector General of Customs of the above message.

P.Z.
8195
1935

OUT FILE

NO DISTRIBUTION.

Cypher telegram to Sir A. Cadogan (Shanghai),

Foreign Office, 11.30 p.m. 30th October, 1935.

No. 32 TOUR.

IMMEDIATE.

Following for Sir F. Leith-Ross.

Your Treasury telegrams Nos. 15 to 20.

1. Your telegrams have been considered with the Chancellor of the Exchequer. We fear that, while fully realising your difficulties, we cannot agree to the suggestion that the currency reform scheme should be completed without taking the Japanese and United States of America into your confidence and that of the Chinese Government, nor that only after the scheme has been definitely formulated, the Japanese and United States Governments should be informed and their co-operation sought. Your mission was originally conceived as part of a scheme of investigation by the Governments principally concerned with the object of securing a solution acceptable alike to themselves and to China. You will remember that in February we told all four Governments that in our view it was vital that any plan for assisting China, besides being technically sound, should be carried out with the friendly agreement of these four countries and ourselves. Though much has since changed, we are committed to frank communication at any rate to Japan and the United States of the solution proposed.

2. We note that you have now outlined scheme to Japanese Ambassador and asked him to ascertain if Japanese banks would participate in loan. But we infer that you did not speak to him of sterling standard. Even apart from our pledges in February last, the introduction on British advice of a sterling

solution

solution without the knowledge of the Japanese Government involves the risk of giving serious offence in Tokyo and worsening Sino-Japanese relations. Such a policy would be in absolute conflict with the general policy of the Government to preserere, however great the difficulties, in maintaining and increasing friendly contact and cooperation with Japan especially in Far Eastern affairs.

3. Similarly we think it risky to assume that the United States of America are bound to buy whatever silver is offered and impolitic to found on that assumption even if it be justified. We think it essential that there should be a definite agreement with the United States Treasury, and frankness and prudence alike require that that agreement should be reached on the United States of America side in the knowledge that a sterling solution is proposed.

4. Broadly, therefore, we think that if the Chinese want our help they should reconcile themselves to the danger of premature leakage as the only means of preserving the essential principle of frankness and concerted coordination with Japan, United States and France.

5. The step referred to in your Treasury telegrams 18 and 20 though obviously involving risk, would presumably facilitate your position in that premature leakage as to sterling solution and loan would no longer be regarded as open to the same objections by the Chinese. (It would no doubt be made clear that you have no responsibility for this step.)

6. As regards immediate procedure, we are prepared to agree that you should not at present contemplate going to Tokyo but should remain at Shanghai to complete scheme for loan with Hongkong and Shanghai Bank. But we think that it is essential that, before sterling scheme and loan proposal are

announced,

announced, the Chinese Government should confidentially inform both the Japanese Government (presumably through the Japanese Ambassador in China) that they are considering a scheme for linking their currency with sterling and raising a loan in Shanghai through the foreign Banks, and should authorise Sir A. Cadogan and yourself to discuss the position confidentially with the Japanese Ambassador. We think it essential that the discussion with the Japanese Ambassador should not be limited to the question of participation of Japanese banks but should aim at obtaining through him some sufficient degree of Japanese endorsement of the programme. If it cannot be thus obtained, we think that the possibility of an early visit to Tokyo must still be considered.

7. We also think it essential that the Chinese Government should make a similar communication to the United States Government (presumably the Secretary of State or the President personally) and should authorise us to talk confidentially to the United States Ambassador in London, unless you regard it as preferable for you to talk with the American Ambassador in China.

8. We think that we could simultaneously take Monick into our confidence here without any real danger of leakage.

9. We will do anything we can to prevent unreasonable demands by bondholders, but we cannot of course forecast their probable attitude as yet.

10. In particular we will do all that is possible with the minimum delay to obtain agreement to the new loan ranking ahead of the three Railway Loans as a charge on the Customs, which is an essential preliminary to any new loan being negotiated.

11. We suggest sterling proceeds of loan together with sterling proceeds of silver sales should be paid to a Special

Fund,

Fund, to be used solely to support exchange in agreement with the Adviser to the Central Bank and that it should be stipulated that, if and when sterling is sold by the Central Bank, the dollar proceeds should remain in the Special Fund and not be lent by the Central Bank to the Chinese Government. We agree that dollar counter-part of the new loan should be used to support Budget, but it would clearly be most desirable that a specific scheme of Budget Reform should be drawn up with your approval and the dollar counter-part definitely earmarked to be used under the supervision of the Central Bank Adviser for purposes covered by such a scheme. We should be glad to have your views on this aspect.

12. The maintenance of British Inspector General of Customs is likely to be regarded by investors in the new loan as an all-important safeguard, and we trust that Japanese agreement to this will be confirmed.

13. We agree that formation of Committee on commercial discrimination can be dealt with by separate exchange of notes.

14. Your Treasury telegram No. 19 refers to a loan of twelve million pounds. Do you still contemplate a loan producing cash proceeds of ten million?

Repeated to Tokyo paragraphs 1 to 4 and 6 only.

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P.Z. 8195 1935

NO DISTRIBUTION.

Decypher. Sir F. Leith Ross (Shanghai),
1st November, 1935.

D. 6.42 p.m. 1st November, 1935.

R. Noon. 1st November, 1935.

No. 29.

IMMEDIATE.

Following for Treasury No. 23 and Bank of England from Sir F. Leith Ross. Begins.

Secret.

Soong called on Ambassador and myself this morning. He told us that his announcement will provide for nationalized silver. All holders will be required to exchange silver for notes of government banks which will become sole legal tender. This will of course apply immediately to Chinese banks. Soong asked me to use influence with British banks to accept requirements. Chinese Government are making similar request to United States Government as regards American banks and he has reason to believe that Americans will agree. If both American and British banks accept all the other foreign banks will come in except possibly Japanese. Export tax on silver will be increased so that banks will not be able to export profitably and unless they come in they will be liable to pay out silver so acceptance is in their interests. I said that I thought His Majesty's Government would be sympathetic provided that other banks came in but asked him to consult Hongkong and Shanghai bank and Martins representatives. I saw them this afternoon. They admitted none of the foreign banks could be afforded payment of deposits in silver and seemed disposed to accept (a) other foreign banks probably at any rate American banks accept and (b) that they are protected by an order from claims payment

in

in silver with retrospective effect from date of gentlemen's agreement. Their main preoccupation was lest notes eventually become worthless and London overdrafts are not adequately covered but they recognised that this could not be assured and meanwhile they had no legal right to refuse silver to depositors. They asked for time to consult head offices and have promised to give me a considered reply if possible by Monday. Unless the question can be settled by that date they may be faced with heavy demands for silver. They will arrange to consult Mercantile Bank. I should be glad to know your views.

Addressed to Foreign Office No. 29 November 1st, repeated to Hongkong for Mr. Norman Young.

F.Z.
8195
1935

NO DISTRIBUTION.

Cypher telegram to Sir A. Cadogan, (Shanghai),

Foreign Office, 1st November, 1935, 11.55 p.m.

No.36. Tour.

-o-o-o-o-o-o-o-o-o-

SECRET AND IMMEDIATE.

Following for Sir F. Leith-Ross from Treasury.

Your Treasury telegram No.23.

We agree that British banks should be encouraged to come into line and have so counselled their representatives. They will no doubt begin by stipulating that other foreign banks or at least all except Japanese should do the same. Neither we nor the banks' representatives here are clear why the proposed Order in Council (or King's Regulations; for decision on which please see my immediately following telegram) need be made retrospective to a date before 4th November, but you can no doubt judge the necessity better on the spot. Hongkong Bank were inclined to stipulate that they should be allowed to re-export free of duty certain silver which they brought to Shanghai from Hongkong on assurance that they should be entitled to re-export it, free of duty.

Banks' representatives asked how it would be possible to obtain Chinese dollars for assets other than silver. We told them such points must be explored locally.

Bank of England were not present when banks' representatives called but have seen this telegram and concur.

8195 107
1935

NO DISTRIBUTION.

Decypher. Sir F. Leith Ross (Shanghai).
1st November, 1935.

D. By wireless 3.55 p.m. 2nd November, 1935.

R. 4.15 p.m. 2nd November, 1935.

No. 30.

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IMMEDIATE.

Following for Sir W. Fisher, Treasury, telegram No. 24:

Foreign Office telegram No. 32 Tour, October 30th.

I have discussed the position with Sir A. Cadogan and hope to send you our joint comments on the policy tomorrow.

2. Meanwhile we have seen Soong and told him the gist of your reply in as little discouraging a form as possible.

3. United States Government have informed Chinese Government that while willing to buy silver they want further particulars of the situation here. In their reply Chinese Government will say that they hope to contract a foreign loan to give them resources to hold exchange. In deference to your views they will add that if such loan can be obtained Chinese Government's objective would be to stabilise the dollar on sterling. Thus your desire that United States should be informed will be met.

4. As regards Japan and France Soong said that he must consult Chinese Government as to how and when they should be informed but hopes to give me their views in the course of the next two days. Meanwhile he could not agree to any further information being given by me.

5. Chinese Government will issue announcement on Monday making notes inconvertible, raising tax on silver, and nationalising silver. He was most anxious that His Majesty's Government should agree that (?nationalised) silver would apply to

British

British banks. On this I am telegraphing separately.

6. Once announcement has been made committee of domestic bondholders will be asked to consent to prior charge on customs for new loan. I urged that this should be done without delay as any leakage without full details of proposal might seriously upset domestic bond market here, which is of vital importance to banking situation.

7. As regards railway loans, Soong will press Railway Minister again to formulate proposal.

8. I will deal with your paragraph 11 in a separate telegram later. Management seem to us to raise difficulties.

9. Your paragraph 14, figure telegraphed from here was 10 million pounds and I still contemplate that loan should produce this amount in cash.

Addressed to Foreign Office telegram No. 30 of November 1st; repeated to Tokyo.

P.Z. 109
8195
1935

NO DISTRIBUTION.

Decypher. Sir F. Leith Ross. (Shanghai).
November 2nd. 1935.

D. 7.30.p.m. November 2nd. 1935.

R. 2.15.p.m. November 2nd. 1935.

No. 32.

MOST IMMEDIATE.

-------oOo-------

Secret.

Following for Treasury No. 26 and Bank of England.

Your telegram No. 36 Tour Series.

Henchman and Cockfarn called today and said that they had come to the conclusion that there was no alternative but to ask His Majesty's Government to make Order-in-Council as rapidly as possible to protect them from demands for silver on the part of depositors. At their request Chinese Government have agreed to postpone announcement till Monday afternoon so as to give time for Order-in-Council. But it would be sufficient if the Ambassador could be authorized to inform them officially and announce publicly that Order-in-Council is being prepared and will be retroactive. They would like Order-in-Council to protect them irrespective of what other banks do. I said that His Majesty's Government would probably only give them protection if they were prepared to hand over their silver reserves to Chinese Government and expressed confidence that His Majesty's Government would really agree to Order-in-Council on these lines if they wanted it. Cockfarn agreed but Henchman wished to exclude silver held against his own notes and to continue payment of silver against these notes. His object

is .....

is to maintain the prestige of Hongkong and Shanghai Bank notes (with Hongkong situation in mind) but of course any prestige they obtain involves prejudice to the Chinese notes. Subject to what follows I consider simplest and wisest course is that Order-in-Council should require all silver to be handed over and should give protection to British banks against all demands for silver with retroactive effect.

2. The latter provision is required because banks have refused to pay out silver since Gentlemen's Agreement of last April and have paid out Chinese bank notes (gr.undec.). They cannot do this once Chinese bank notes become inconvertible and therefore want protection for the future. But they fear they may be sued for refusal to pay out silver during period of Gentlemen's Agreement and as their legal position is doubtful they are anxious that protection should be retroactive as from April last. It seems to me only fair to protect banks if there is any risk of claims.

3. Meanwhile the Ambassador and I have discussed with Consul-General and Judge the procedure to be adopted. Your further telegram has not yet arrived but the Judge holds that King's Regulations could at the most deal with redemption of bank notes and ~~Central Government~~ could not deal with payment of deposits or alteration of commercial contracts. He advised ~~inclusion~~ therefore that Order-in-Council will be necessary but suggests that Order-in-Council might take the form of amendment to Article 209 China order so as to give power to deal with e.g. currency matters by King's Regulations. This would enable

further measures to be taken as required from time to time under King's Regulations.

4. Consul-General points out, however, that question involved extends beyond the banks. Many contracts throughout China are drawn in taels or silver and in the absence of specific provisions by Order-in-Council these contracts would be enforcable in British courts. Question would extend to silver debentures of Shanghai Water Works and other concerns. Order-in-Council may involve then relief of all British subjects of liability for payment in silver but reactions may be serious and drafting and scope of Order will need careful consideration.

5. It seems best therefore at the moment to confine ourselves to emergency measures, I request instructions that this might take the form of order authorizing the banks to refuse payment in silver or of order instructing their refusal. I saw Henchman and Cockfarn again and they definitely prefer the latter course even though it involves suspending payment on their notes. If you approve this course as proposed in Ambassador's telegram No. 71 Tour it will give time for the whole issue to be examined properly and the question of re-exportable silver to be considered.

6. No difficulty felt here about obtaining Chinese dollar notes - Central Bank will buy foreign exchange without limit.

Addressed to Foreign Office No. 32 November 2nd; repeated to Hongkong for Mr. Norman Young.

F.Z.
8195
1935

NO DISTRIBUTION.

Cypher telegram to Sir A. Cadogan (Shanghai)

Foreign Office, 3rd November 1935, 2.00 a.m.

No. 42.

MOST IMMEDIATE. - - -

Secret.

1. We consider emergency measures should be confined to relieving banks of liability to pay notes or deposits in silver. We think that this could be done by King's Regulations if Chinese Government legislate first and King's Regulations apply Chinese legislation.

2. We hope Crown Advocate will agree in above view. We strongly dislike proposal that you should issue order to banks with no legal effect. Action by King's Regulations even if Crown Advocate should feel some doubt as to their validity seems to us far preferable. But in the last resort you have discretion, in consultation with Sir F. Leith Ross and Crown Advocate to take such emergency measures as you think necessary and justifiable.

3. We think that surrender of silver reserves, elimination of silver clauses in contracts etc., must be dealt with later. On these points we agree that Order in Council may be required but please consider whether Chinese legislation on these points could be applied by King's Regulation. We await your further views on this and on drafting and scope of measures.

4. Enactment of Order in Council here if required will take about three days and perhaps more owing to election.

5. We have consulted Treasury and Bank of England.

6. Please show this telegram at once to Sir F. Leith Ross.

P.Z. 113
8195
1935

NO DISTRIBUTION.

Decypher. Sir A. Cadogan (Shanghai). 3rd November, 1935.

D. 7.55 p.m. 3rd November, 1935.

R. 2.00 p.m. 3rd November, 1935.

No. 73.

.....

Secret.

Your telegram No. 42 tour series.

Crown Advocate is away but Sir F. Leith Ross and I have been working in close consultation with Judge and Consul-General.

Chinese Government are publishing tomorrow Monday morning. It is essential therefore to follow their announcement as quickly as proposed with issue of appropriate King's Regulation.

We have made a draft and propose to exhibit it in all Consulates tomorrow morning. Text is given in my telegram No. 74.

We recognise that this is not strictly in accordance with instructions in your telegram No. 42 Tour in that it extends prohibition to all British persons and not only to Banks. Our reason for this is that Judge doubts whether partial application which you suggest would fall within Article 209-1(A) of Order in Council and feels wider application would conform more closely to Chinese law and be better designed to assure validity of Regulations. Regulations have to be based on Article 100 of Government (grp. undec.) and therefore should be of general rather than specific application. Judge advises me that Regulations merely relieving Banks of liability to pay silver would run great danger of being held ultra vires by Supreme Court (following precedent in Morgan versus Mack) and moreover both Hongkong and

Shanghai

Shanghai Bank and Chartered Bank of India, Australia and China definitely asked that Regulations should take the form of prohibition of payment and not merely relieve them of liability.

Regulations as drafted do not preclude Banks from surrendering silver to Chinese Central Bank but do not require them to do so. This question as well as wider question of silver contracts will be considered when text of Chinese law is available and I will telegraph later about this.

Addressed to Foreign Office telegram No. 73 Tour series November 3rd, repeated to Hongkong for Mr. Norman telegram No. 19.

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P.Z.
8195
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NO DISTRIBUTION.

Decypher. Sir F. Leith Ross (Shanghai),
4th November, 1935.

D. 2.00 a.m. 5th November, 1935.

R. 8.00 p.m. 4th November, 1935.

No. 37.

Tokyo telegram No. 283 to Foreign Office.

The statement that Nanking Government has secured a loan from Great Britain is of course without foundation. Other statements relating to currency reform were announced in the Press this morning. I have seen the Japanese Ambassador and he asked whether the introduction of currency reform was based on my advice. I told him that this was not the case. I had been investigating the position with a view to currency reform coupled with adequate safeguards and supported by an international loan. The Chinese Government however felt unable to delay action and had decided to put into force currency reform on their own responsibility. They had however adopted a number of suggestions for reform of banking system and budget, which I had urged as essential for any scheme of currency reform. I thought that the Chinese action had been precipitate but I felt that they should be encouraged and I hoped that they would be successful. The Japanese Government had always emphasised to me that the Chinese should rely on their own resources and should undertake reforms without foreign aid. This was what the Chinese Government were now doing. I thought that it was still very desirable that a loan should be negotiated in order to ensure prospects of success but as I had received no answer as regards the Japanese attitude to the loan I had not been able to hold out any definite assurance of a loan and therefore could not urge the Chinese Government to defer the action which they had decided to take.

The

The Japanese Ambassador asked how it was that the King's Regulations were published this morning. This seemed to the Japanese to imply long consultation with the Chinese Government. I assured the Japanese Ambassador that the British banks had been informed on Saturday and I understood that the Japanese banks and the other foreign banks had been similarly informed. The British banks had consulted with us yesterday, and the Regulations had been drafted early yesterday afternoon. The Japanese Ambassador said that our procedure was very much more thorough than the Japanese but seemed satisfied with the explanation and said that he would do his best to remove misapprehension felt on Tokyo.

He then said that the Japanese banks felt that it was unfair that they should deliver their silver to the Chinese Government and considered that it should be bought at the world price or that they should be able to export it. Their view was that the increase of export charges was equivalent to prohibition and could not be applied against extraterritorial rights. I said that in our view extraterritorial rights could not be interpreted to exempt (? them emtd.) from Chinese export taxes and the banks had no reason to claim the world price for silver. If they availed themselves of the Chinese law to pay their deposits in Chinese legal tender notes they had no claim to anything but paper notes in exchange for their silver. The Secretary of the Japanese Embassy said that the Japanese banks did not admit this and there was a risk of serious consequences. The Japanese Ambassador said that of course he was doing his best to moderate the resentment caused by the Chinese action. I ended up by asking the Japanese Ambassador again to obtain indication of Japanese attitude to possible loan and he promised to do his best. The conversation throughout was very friendly but evidently the Japanese banks are doing their best to stir up trouble.

Addressed to Foreign Office No. 37 of November 4th, repeated to Tokyo.

F.Z.
8195
1935

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NO DISTRIBUTION.

Decode. Sir F. Leith Ross. (Shanghai).
November 5th. 1935.

D. (by wireless) November 5th. 1935.

R. 4.30 p.m. November 6th. 1935.

No. 39. (R).

---oOo---

Following from Sir F. Leith Ross for Sir W. Fisher, Treasury, No. 29.

With reference to my telegrams Nos. 35 and 37 to the Foreign Office. Press reports from Tokyo that Gaimusho spokesman declared that vigorous protests would be filed with Great Britain and China if press reports of £10,000,000 loan by London proved true. He disclosed that Great Britain had recently proposed making joint loan by London and Tokyo and Japan's reply was now being drafted. He added that grant of financial aid by Great Britain to China would be regarded as serious obstacle to Sino-Japanese friendship.

Press also reports that Takahashi predicted that China would join sterling bloc if Great Britain gave financial aid and expressed the view that it was natural that London should wish to protect British investments in China. Loan would, however, be new departure. China's need for currency reform was obvious but programme announced would encounter serious difficulties.

I saw Reuter and Rengo representatives yesterday evening and explained that no loan (?gr.omit.) promised: that Chinese programme embodied some suggestions for reforms which I had been advocating but that action had been taken by Chinese Government on their own responsibility.

Addressed to Foreign Office No. 39; repeated to Tokyo.

P.Z.
8195
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COPY

(F 6844/361/10)

NO DISTRIBUTION.

Cypher telegram to Sir A. Cadogan. (Shanghai).

Foreign Office, November 6th, 1935. 7.0 p.m.

No. 39.

(TOUR).

Your telegram No.67 Tour (of October 29th; Japanese and post of Inspector-General of Customs).

I agree that if post of Deputy Inspector-General of Customs is created to be held by a Japanese the holder should not have reversion to post of Inspector-General. It is obvious, however, that there will be endless trouble if this condition is not very clearly and explicitly laid down. This should be borne in mind in the event of the question developing on these lines.

F.Z.
8195
1935

119

NO DISTRIBUTION.

Decode. Sir R. Clive. (Tokyo).
November 6th. 1935.

D. 5.40.p.m. November 6th. 1935.

R. 11.35.a.m. November 6th. 1935.

No. 286. (R).

--------oOo--------

My telegram No. 283.

First report from Shanghai to the effect that Nanking Government had secured loan from Great Britain gave rise to some bitter comment in Japanese press.

"Asahi", which maintains close touch with Ministry of Foreign Affairs, said that scheme appeared to Japanese official (gr.undec.) banking circles as direct result of co-operation by Great Britain with pro-European and pro-American elements in China and hence as designed to worsen Sino-Japanese relations. If report was true Japan must spurn such treachery on the part of Great Britain. But for various reasons scheme was intrinsically unlikely to succeed.

"Jiji" wrote that execution of plan would be difficult without support of foreign banks and that Japanese financial institutions would be certain to oppose request to surrender their silver.

"Nichi Nichi" cited scheme together with attack on Wang Ching-wei as indicating leaning towards pro-European and pro-American policy and so disclosed real attitude of Chiang Kai-shek towards Japan. Japan might be forced to make it clear to China that the latter's economic rehabilitation was impossible without her co-operation.

"Hochi" publishes strong leading article in similar sense There has been no press comment so far on Japanese Ambassador's démenti of yesterday regarding the loan.

Addressed to Foreign Office No. 286; repeated to Shanghai, saving, Peking.

Copy.
(F 6976/6/10).

NO DISTRIBUTION.

Decode. Sir R. Clive (Tokyo).
6th November, 1935.
D. 5.35 p.m. 6th November, 1935.
R. 10.5 a.m. 6th November, 1935.
No.287. (R).

Shanghai telegram No.39.

"Times" correspondent tells me that the spokesman said nothing like this to foreign correspondents.

Please see telegram of November 5th of which "Times" correspondent showed me a copy.

Addressed to Foreign Office telegram No. 287, repeated to Shanghai Saving Peking.

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P.Z. 8195 1935

NO DISTRIBUTION.

Decode. and Decypher. Sir R. Clive. (Tokyo). November 6th. 1935.

D. 10.45.p.m. November 6th. 1935.

R. 5.35.p.m. November 6th. 1935.

Nos. 288 and 289.

---oOo---

(R begins).

Your telegram No. 216.

Acting Commercial Counsellor spoke to Vice Minister of Finance on November 4th in the sense indicated.

Vice Minister remarked in reply that political aspect of the matter which was more important than the financial, would be closely examined by Ministry of Foreign Affairs within the next few days.

As for co-operation of Japanese banks Vice Minister said that it would be premature to express any opinion; but having to subscribe to Japanese-Manchukuo Government loans they had little money to spare at present.

He added that he did not suppose that United States would like the idea of linking Chinese dollar to sterling and in general he gave the impression that he did not relish the fact that measures reported were result of British efforts and had been made public so soon.

(End of R).

To-day I called on Vice Minister for Foreign Affairs and read to him greater part of Leith-Ross' telegram No. 37 November 4th. (R begins). I said that I wished to assure him of two things:

(1) There was no question of making loan behind the backs of Japanese and never had been.

(2) Chinese action had not been taken with knowledge

of .....

of Sir F. Leith-Ross. In fact he only heard of it on November 2nd at the same time as Banks and thought it precipitate.

Vice Minister for Foreign Affairs thanked me for this assurance and said that he did not doubt good faith of His Majesty's Government. He asked whether he could give communiqué to the press. I said that I had no objection but added that I was not giving assurance under instructions. Assurance was based on official information contained in telegrams that I had received.

I went on to say that the object of His Majesty's Government in sending Sir F. Leith Ross had been purely financial and not political. There had never been any idea of trying to undermine Japanese position. Object in view namely to effect currency reform was believed to be in general interest, not only British, and I failed to see how it could do anything but benefit the Japanese. Vice Minister for Foreign Affairs admitted last point but said that the sudden manner in which Chinese had acted had made a disagreeable impression on them although he again admitted that attempt at murder of Wang Ching-wei had created crisis. (End of R).

Addressed to Foreign Office Nos. 238 and 239 November 6th; repeated to Shanghai Saving and to Peking.

123 P.Z. 8195 1935

NO DISTRIBUTION.

Decypher. Sir R. Clive. (Tokyo). November 6th. 1935.

D. 10.40.a.m. November 6th. 1935.

R. 3.55.p.m. November 6th. 1935.

No. 290.

--------oOo--------

Following is continuation of my telegram No. 288.

He said that Japanese Foreign Office was very unpopular department which had perpetual difficulties with the military and new situation was causing them great embarrassment. Military were filled with suspicion while Japanese bankers were all opposed to giving up their silver. He knew T.L. Soong well and admired his intelligence but thought he had made a mistake in facing an issue before ground had been sufficiently prepared.

Addressed to Foreign Office No. 290 November 6th; repeated to Shanghai Saving and Peking.

124 P.Z. 8195 1935

NO DISTRIBUTION.

Decode. Sir R.Clive (Tokyo). 7th November, 1935.

D. 3.25 p.m. 7th November, 1935.

R. 9.30 a.m. 7th November, 1935.

No.291. (R).

XXXXXXXXXXXXX

Important.

My telegram No.238.

I have no exception to take to statement published in the press this morning of my interview yesterday excepting words at the beginning "acting on instructions from his government Sir R.Clive".

I saw Vice Minister for Foreign Affairs this morning at reception at Soviet Embassy and complained of this. He assured me that he had never said this to the press and would take steps to have this put right.

He added that Minister for Foreign Affairs was very glad I had spoken as I had and this had cleared the air.

Addressed to Foreign Office No.291; repeated to Shanghai Saving and Peking.

125 P.Z. 8195 1935

Copy.

F 7016/6/10).

NO DISTRIBUTION.

Decode. Sir A. Cadogan (Nanking).
7th November, 1935.

D. (By Wireless) 7th November 1935.

R. 4.30 p.m. 7th November, 1935.

No.80 (Tour). (R).

Minister of Finance asks me to convey to His Majesty's Government grateful thanks for prompt and valuable co-operation which they have accorded to Chinese Government in issuing King's regulations to support latter's monetary decree.

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(F 7036/6/10)
(F 7038/6/10)
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P.2.492/35.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

Two copies for Political dept. retained.

Foreign Office,

12 NOV, 1935.

G. W. P. Martin Esq
India Office

ENCLOSURE IN WEEKLY LETTER
No. 47 21 NOV 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

REGD. POL. DEPT.
14 NOV 1935
INDIA OFFICE

8—11944 (4)

F.Z. 127
8189
1935

NO DISTRIBUTION.

Decode. Sir F. Leith-Ross, (Shanghai),
7th November, 1935.

D. W/T. 8th November, 1935.

R. 5.50 p.m. 8th November, 1935.

No.43. (R).

-o-o-o-o-o-o-o-o-o-o-

Following from Sir F. Leith-Ross, for Sir W. Fisher, Treasury, No.33.

With reference to Tokyo telegram No.287 of yesterday, Shanghai papers publish Rengo message from Tokyo stating that as a result of conferences with bankers and business men it had been decided that Japan would not oppose a British loan to China for stabilisation purposes but would oppose any political loan giving control of Chinese economy. Today statements by Japanese Ambassador and myself that no loan had yet been arranged are reported more or less accurately.

Addressed to Foreign Office No.43, repeated to Mission, Tokyo.

P.Z.
8189
1935

NO DISTRIBUTION.

Decypher. Sir F. Leith Ross (Shanghai)
9th November 1935.

D. 9.10 p.m. 9th November 1935.

R. 3.00 p.m. 9th November 1935.

No. 45.

- - -

Following from Sir F. Leith Ross for Treasury telegram No. 35.

Reference my telegram No. 42 to Foreign Office and telegram No. 32 to Treasury.

Foreign banks meeting yesterday unanimously expressed readiness to cooperate with the Chinese government. But (?non)-British banks all opposed surrender of silver dollars for dollars. They agreed to consult their home authorities and a further meeting will take place next Tuesday. Despite the attitude of other banks British banks are willing to surrender silver dollars for dollars provided the Chinese government undertakes not to give other banks more favourable treatment.

2. As regards silver obligations, soundings taken suggest that most British interests agree that silver obligations however expressed will have to be made payable in legal tender dollars important minority however seem likely to object. In their view silver clauses should not be abrogated without greater assurance of stability of Chinese dollar. (gp. undec.) accept payment in legal tender notes so long as dollar remains stable but such a stipulation seems inadvisable as throwing doubt on the announcement of Chinese policy. I am meeting principal parties concerned for a confidential discussion next Thursday when I hope the Crown Advocate will have returned.

Addressed to Foreign Office No. 45 of November 9th, repeated to Hongkong for Mr. Young.

INDEXED

P.Z.
8138
1935

129
Copy to India
Pur-by
10/12
13/11

Dear Rembold 1946.

Further telegrams
re China. I have kept
a copy of each

Yours
J. H. Thomas

13/11

REGD. POL. DEPT.
14 NOV 1935
INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER
NO. 47 21 NOV 1935
POLITICAL AND
SECRET DEPT. INDIA OFFICE

P.Z.
8188
1935
NO DISTRIBUTION.

Code telegram to Sir F. Leith Ross (Shanghai).

Foreign Office, November 12th 1935. 12.45 p.m.

No.54. (R).

^^^^^^^^^^^^^^^^^^

Following for Sir F. Leith Ross:-

Following is the comment on China's decision in Samuel Montagu's Weekly Circular.

Begins:

"The new scheme has been generally welcomed as a commendable effort to restore China's currency to a sound basis and the development of the plan will be watched with great interest.

As regards the bearing upon the Silver Market, on the day the news was received prices rose to above the American level on some Indian bear covering, which would appear to indicate a feeling of uncertainty, but the advance was lost yesterday. It is possible that any immediate effect has been largely discounted and, as regards the future, much will depend on the use which the Chinese Government may have to make of the silver it controls and the reaction of the American Government, the policy of the latter remaining the dominating factor".

Ends.

131

P.Z.
8188
NO DISTRIBUTION.

Code telegram to Sir J. Brenan (Shanghai).

Foreign Office, November 12th 1935. 3.15 p.m.

No.56. (R).

^^^^^^^^^^^^^^^^^

Following for Sir F. Leith Ross.

The "Times" today reports that Japanese Foreign Office is still seriously considering your suggestion of loan, but is unlikely to approve as it conflicts with principle that China must recover by her own exertions and all foreign loans are undesirable.

Also that Japanese War Office repeated rumours of proposal for a loan of £50 millions, British subjects only to be appointed as Inspector General of Customs, British Financial Adviser and Anglo-Chinese Financial Commission: these measures would make China a financial protectorate of British capital and so forth.

The "Times" comments that attitude of War Office is based on complete misapprehension. Suggestions made by you were not cut and dried proposals, but were made in hope that Governments of America, France and Japan would co-operate in stabilisation of Chinese currency and rehabilitation of Chinese finances to the benefit of Japanese traders with Japan. No foundation for belief that Anglo-Chinese Financial Commission has been suggested, while rumour of British Loan of £50 million is scouted in financial circles here. "Times" City column adds that it would be a pity that purely Monetary scheme should be condemned by Japan in mistaken opinion it has some political significance. It states loan will probably be required at some later stage, but no loan will be considered or will be forthcoming from this country except in conjunction with Japan and other interested countries.

Addressed to Shanghai No.56, repeated to Tokyo No.224.

P.Z.
8188
1935

NO DISTRIBUTION.

Decode. Sir R.Clive (Tokyo).
11th November, 1935.

D. 7.10 p.m. 11th November, 1935.

R. 1.00 p.m. 11th November, 1935.

No.296. (R).

XXXXXXXXXXX

Addressed to Shanghai. Following for Sir F.Leith-Ross.

Your telegram No.18.

Vice Minister of Finance has informed Acting Commercial Counsellor that Yumoto and junior Treasury official are making tour of inspection in Manchukuo and North China and will not be in Shanghai until early next month. He added that tour had no connexion with present question and that (grp.omtd.) significance should be attached to it.

Repeated to Foreign Office.

R.Z.
8188
1935

NO DISTRIBUTION.

Decode. Sir F. Leith Ross (Shanghai). 11th November, 1935.

D. (Via W/T.) 11th November, 1935.

R. 4.00 p.m., 11th November, 1935.

No. -. (R).

::::::::::::::

Addressed to Tokyo telegram No. 18.

Press states Yumoto and another Japanese Treasury expert are being sent here to investigate the position. Can you confirm?

Repeated to Foreign Office.

Political Dept. 134
Purity of Gifts
1932
5/XI

F.6463/35. 242 words.

SECRET Cypher telegram from Secretary of State to Government of India, Finance Department, dated 4th November, 1935. XXX.

Immediate. 3554. Confidential, Finance Department.

1. Your telegram 4th November, 3010. Chinese currency measures. Reuters telegram of 3rd November gives details of decree. There is no reason to doubt accuracy of this report, which follows general lines anticipated by Sir F. Leith-Ross. His Majesty's Government have not yet received official intimation of details.

2. Treasury state that Leith-Ross has taken no part in framing measures of Chinese Government, which has been forced to abandon silver owing to speculative pressure on exchange.

The measures of budget, banking and Central Bank reform are, however, on lines approved by Leith-Ross and should provide a useful basis for his further discussions. The present position of Chinese dollar is that it is inconvertible and linked to no other standard. But Chinese will endeavour to keep exchange stable at present level and presumably (though this is not stated) this will in practice mean stable in relation to sterling.

3. You have no doubt seen Press messages that United States Senators Wheeler and King visiting Shanghai predicted on 2nd November that American silver purchase policy would be continued and expected price to rise to 129 cents.

4. In London market silver rose to-day to $29\frac{1}{2}$ $29\frac{3}{16}$. Brokers attribute rise to speculative spot buying from India and elsewhere. United States Government have not raised their buying price of $29\frac{5}{16}$ pence.

INDEXED

In any further communication on this subject, please quote
No. F 6317/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

P.Z. 7962 1935

India 135
Mr Martin (Finance Dept)
5 NOV 1935
mnR.

THE Under-Secretary of State for Foreign Affairs presents his compliments to The under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Pur by 10 NR 5/11

Foreign Office,
4 Nov: , 1935.

pp 1946 P.Z. 492/35.
1
Mr K. 5/10

Reference to previous correspondence:

✓

Description of Enclosure.

Name and Date.	Subject.
H.M. Ambassador Tokyo Despatch No. 464 of 13 Sept 1935	Visit of Sir F. W. Leith-Ross to Tokyo

MAILS BRANCH 5 NOV 1935 INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER NO. 45 7NOV 1935 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Similar letter sent to C.O. Treasury Budget OUT.

14—6130 11941 (2)

P.Z. 7962 1935

THIS DOCUMENT IS THE PROPERTY OF HIS BRITANNIC MAJESTY'S GOVERNMENT

JAPAN. October 4, 1935.

CONFIDENTIAL. SECTION 2.

[F 6317/6/10]

Sir R. Clive to Sir Samuel Hoare.—(Received October 4.)

(No. 464.)

Sir, *Tokyo, September* 13, 1935.

I HAVE the honour to report that Sir Frederick Leith-Ross, with Mr. Hall-Patch and Mr. Rogers of the Bank of England, arrived here in the *Empress of Asia* on the afternoon of the 6th September—a Friday. Mr. Tsushima, Vice-Minister of Finance, went down to Yokohama to greet Sir Frederick, who had known him when Japanese financial adviser in London. None the less, it was an act of friendly courtesy on the part of a high official of the Japanese Government. The following day—Saturday—Sir Frederick and his party came up to Chuzenji for the week-end, returning to Tokyo on Monday, the 9th. He and Lady Leith-Ross were entertained that evening to dinner by Viscount Matsudaira, Grand Master of the Ceremonies, who had been his contemporary at Balliol. On the morning of the 10th official visits had been arranged to the Vice-Minister of Finance and to Mr. Fukai, governor of the Bank of Japan. In the afternoon I took Sir Frederick to call on the Minister for Foreign Affairs and Vice-Minister for Foreign Affairs. A record of the conversation is given in my telegram No. 239 of the 11th September. The council of the Japan-British Society entertained the gentlemen of the mission at luncheon that day.

2. On the 11th September I gave a luncheon party at this Embassy, which was attended by the Vice-Ministers for Foreign Affairs and Finance, Mr. Matsudaira, Japanese Ambassador in London, Mr. Kadono, managing director of Okura's, a firm which has considerable financial interests in China, and two or three leading bankers.

3. On the 12th I took Sir Frederick and Mr. Hall-Patch to pay a courtesy visit to the Chinese Ambassador, and to-day these gentlemen will be received by Mr. Takahashi, the veteran Minister of Finance, and Mr. Kodama, head of the Yokohama Specie Bank.

4. The date for his audience with the Emperor has not yet been fixed, but will almost certainly take place on Tuesday, the 17th September—Tuesday being the usual day on which audiences are granted. Owing to Court mourning, His Majesty's return to Tokyo has been postponed until the end of this week.

5. The Vice-Minister for Foreign Affairs has invited Sir Frederick and myself to luncheon on the 17th. The party will probably leave for Kobe the same evening to embark for Shanghai, where they should arrive on the 21st September.

6. I only mention these details to show that Sir Frederick will have had the opportunity to gauge the views of the Japanese authorities, political, financial and industrial.

7. At our interview with the Minister for Foreign Affairs on the 10th, his Excellency was extremely non-committal, and confirmed my previous impression that both he and the Vice-Minister are convinced that—

(1) To give China a loan without provision for stringent foreign control is waste of money.
(2) China must first prove her determination and ability to help herself.
(3) Currency reform would never be accepted in the provinces outside what they called the Metropolitan area (Shanghai, Nanking), even if it could be made acceptable there. Moreover, the situation in the provinces was far less acute and probably not much worse than usual.
(4) China, having struggled through in the past, may again survive disaster in the present crisis.

8. At the same time their Excellencies listened attentively to Sir Frederick's remarks, asked him to keep in touch with the Japanese Ambassador, and said they would be very interested to learn the result of his investigations.

9. Their attitude was friendly but sceptical.

I have, &c.
R. H. CLIVE.

INDEXED

In any further communication on this subject, please quote
No. F 6887/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

P.Z. 7946 1935

India 137
Mr. J.W.P. Martin

CONFIDENTIAL

5 NOV 1935

THE Under-Secretary of State for Foreign Affairs presents his compliments to The Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Foreign Office,
4 Nov, 1935.

ff 7880.

Reference to previous correspondence:

✓

Description of Enclosure.

Name and Date.	Subject.
Sir F. Leith Ross Shanghai Telegram No. 29 of 1 33 3 } Nov: 1935	Sir F. Leith Ross' mission to China – financial measures

REGISTRY DEPT.
4 NOV 1935
INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER
NO. 45 7NOV 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Similar letter sent to Treasury

14—6130 11941 (2)

P.Z.
7946
1935

NO DISTRIBUTION.

Decypher. Sir F. Leith Ross (Shanghai),
1st November, 1935.

D. 6.42 p.m. 1st November, 1935.

R. Noon. 1st November, 1935.

No. 29.

IMMEDIATE.

Following for Treasury No. 23 and Bank of England from Sir F. Leith Ross. Begins.

Secret.

Soong called on Ambassador and myself this morning. He told us that his announcement will provide for nationalized silver. All holders will be required to exchange silver for notes of government banks which will become sole legal tender. This will of course apply immediately to Chinese banks. Soong asked me to use influence with British banks to accept requirements. Chinese Government are making similar request to United States Government as regards American banks and he has reason to believe that Americans will agree. If both American and British banks accept all the other foreign banks will come in except possibly Japanese. Export tax on silver will be increased so that banks will not be able to export profitably and unless they come in they will be liable to pay out silver so acceptance is in their interests. I said that I thought His Majesty's Government would be sympathetic provided that other banks came in but asked him to consult Hongkong and Shanghai bank and Martins representatives. I saw them this afternoon. They admitted none of the foreign banks could be afforded payment of deposits in silver and seemed disposed to accept (a) other foreign banks probably at any rate American banks accept and (b) that they are protected by an order from claims payment

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in silver with retrospective effect from date of gentlemen's agreement. Their main preoccupation was lest notes eventually become worthless and London overdrafts are not adequately covered but they recognised that this could not be assured and meanwhile they had no legal right to refuse silver to depositors. They asked for time to consult head offices and have promised to give me a considered reply if possible by Monday. Unless the question can be settled by that date they may be faced with heavy demands for silver. They will arrange to consult Mercantile Bank. I should be glad to know your views.

Addressed to Foreign Office No. 29 November 1st, repeated to Hongkong for Mr. Norman Young.

P.Z.
7946
1935

140

NO DISTRIBUTION.

Decypher. Sir F. Leith Ross (Shanghai).
3rd November, 1935.

D. 4.48 p.m., 3rd November, 1935.

R. 10.30 a.m., 3rd November, 1935.

No. 33.

::::::::::::

IMMEDIATE.

Following for Sir W. Fisher.

Treasury telegram No. 27.

Chinese Government announcement regarding currency reform will be issued today for release Monday morning papers. Besides arrangements about inconvertibility and nationalisation of silver it will cover amalgamation of note issue and the intention of Government to stabilise exchange at about present level. Further it will outline measures of reform of Central Bank, to strengthen commercial banking situation and to reform budget. While the situation has forced the Chinese Government to take action immediately and on their own responsibility reforms proposed follow the general line which we have been urging. Could Major Steward or Foreign Office Press Department inform "Times" and financial papers in confidence of expected announcement and get them to make sympathetic comment on efforts which the Chinese Government are making?

INDEXED

141

India

CONFIDENTIAL

In any further communication on this subject, please quote
No. F 6293/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

P.Z. 7280 1935

Pub by 18 R 11/R.

THE Under-Secretary of State for Foreign Affairs presents his compliments to The Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Foreign Office,
10 Oct, 1935.

pp 7043.
P.Z. 492/35.

Reference to previous correspondence:

~

Description of Enclosure.

Name and Date.	Subject.
HM Representative Peking Despatch No 1329 of 21 Aug 1935	Financial situation in China

RECD. POL. DEPT. 11 OCT 1935 INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER No. 42 17 OCT 1935 FROM SECRETARY, POLITICAL & SECRET DEPT. INDIA OFFICE

Similar letter sent to CO Treasury Bd of T DWT.

14—6130 11941 (2)

P.Z.
7280
1935

Copy

(F 6293/6/10)

No. 1329 (303/36/1935)

CONFIDENTIAL BAG.

His Majesty's Ambassador, Peking, presents his compliments to His Majesty's Principal Secretary of State for Foreign Affairs, and transmits herewith three copies of the undermentioned paper.

Peking.

21st August, 1935.

Reference to previous despatch:

634. Telegram to Foreign Office No. 773 of 12.8.1935.

Description of Inclosure.

Name and Date.	Subject.
Despatch from the Acting Commercial Counsellor at Shanghai Printed Letter No.187 of 10.8.1935.	Currency Situation: Record of conversation with Chang Chia-ao.

416/260/1935.

I asked Chang Chia-ao to lunch with me today, to try and find out what he thought about the situation. He seemed quite willing to talk, though his English is always rather hard to understand.

I referred to the many rumours current during the last few weeks that the situation had got so bad that the Minister of Finance was likely to resort to action of an inflationary nature. He said that the position of the banks and industries was now so completely frozen that they were naturally pressing Dr. K'ung to take some action to relieve them. The extremity of deflation had now been reached, and in other countries would demand immediate action by the Government or the central banks. He did not, however, think that such action here would be of any use; it would, in fact, rapidly lead to complete collapse. In answer to my question whether Dr. K'ung was likely to take any action of this nature in the next few weeks, he said he did not think so. The obvious remedy was a foreign loan, and the injection of foreign capital to unfreeze the local banks and industries, which would hold the situation at any rate for a time (later in the conversation however he remarked that even if a foreign loan were obtained, and it led to political complications, it would be to China's ultimate disadvantage). He said the Minister of Finance thought that the negotiation of a foreign loan would be very complicated, and would take a very long time, and that in the meantime the situation would only go on getting worse. I referred to recent speculation, and the influence of the speculators on Dr. K'ung, but I could not draw him on that point. I went on to speak of Sir F. Leith-Ross's visit, of which the newspapers this morning

are/

are full, and to sound him as to the attitude of the Japanese. He did not think the Japanese would make any difficulties about Sir F. Leith Ross's investigation, but they would put obstacles in the way of any international loan. I asked if the Japanese were trying to push Dr. K'ung towards devaluation or inflation. He answered in the negative, but he seemed to agree with me when I suggested that they were at any rate not encouraging him to put any faith in the prospects of an international loan. I asked if they themselves were ready to give China an immediate loan. He said they were not. They would only do so after they had forced Chiang Kai-shek to come to terms with them; then they might offer him £100,000,000 or so on their own conditions. In the meantime, they would pursue their own plans of development in the North, building railways, cotton cultivation, etc., whether the Chinese cooperated or not, while in the south they would concentrate on getting the settlement they wanted, and would make things "awkward" for Chiang till they got it. He did not seem to think, however, that they would take any steps to wreck matters financially (such as exporting silver), but rather action of a political nature.

He referred to the imposition of the equalization duty in October last year, and reminded me he had been opposed to Government action then. The loose nature of China's financial organization made it imperative that this should be a "free" market in every sense. The action of the Government had only led to lack of confidence and the smuggling and hoarding of silver. It had been followed by the Government policy of changing the constitution of the banks, which had increased the lack of confidence, and

hastened/

hastened the process of the freezing of banks and industries. If the policy of laissez-faire had been continued, silver, or money in some form - what was now absolutely essential to unfreeze the situation - would have come back, (unless the foreign banks had continued to try and make profit from exporting it). As things were now, no money was coming in to Shanghai, either from abroad or from the interior, and we had reached a point of complete stagnation. Any attempt of the Government to go further with some measure of inflation or devaluation would only lead to a still greater loss of confidence and complete collapse. The efforts of the Government to control the situation only encouraged others, e.g. the Japanese to step in and try and control it also. He thought the next six months were going to prove full of grave difficulty. The only alternative to further Government action seemed to be an international loan and that might lead to all sorts of political difficulties.

He asked me about the origin of H.M.G.'s decision to send Sir F. Leith Ross. I explained that it was the result of the Chinese Government having last winter approached H.M.G. for financial assistance. He asked with curious emphasis if we had invited the collaboration of Japan. I told him that H.M.G.'s policy in this question was one entirely of international cooperation, and that the Japanese Government had been invited with other Powers to send an expert at the same time. They had received these proposals in a very friendly spirit, though I did not know whether they were going to send any expert. Their position was rather different from ours, owing to their geographical proximity; they could send anybody at any moment. He reverted to the recent talk

about/

about a temporary loan from Great Britain, and enquired about it. I replied that H.M.G.'s policy had from the beginning been one, as I had just said, of seeking international cooperation in this matter, and of not taking any steps till they were fully informed of the situation and received expert advice on it. I had no reason to suppose they had changed their attitude. He remarked that Dr. K'ung had been pressing Mr. Soong very hard recently to get this loan, as he was in a very tight place.

I did not refer to Mr. Chang's previous conversation with Haward, the editor of the "North China Daily News", though he himself at one moment remarked, when I was talking about the Japanese attitude, that two or three weeks ago certain Japanese officers had been talking about Japanese action in the north and had said there would be trouble if Great Britain wanted to give China a loan.

His remarks as a whole left me with the impression that he saw no solution of the problem, either by means of any measures the Chinese Government might itself take, or of an international loan, the negotiation of which will in his opinion only lead to insuperable political difficulties. Possibly he thinks, though he did not say so, that China can only get out of the mess by throwing herself on the mercies of Japan.

(Intld.) A.H. G.

10/8/35.

147

Notes.

Minute Paper.

Register No.
P.Z
6846/35.

SECRET.
POLITICAL DEPARTMENT.

Dated

Rec. 193 .

	Date.	Initials.	SUBJECT.
To			
Under Secretary			CHINA
Secretary of State...			
Committee.....	5.10		Economic & Financial Situation.
Under Secretary.....			
Secretary of State....			

Copy of to

FOR INFORMATION.

This despatch contains an interesting memorandum by our acting commercial counsellor at Shanghai dated 31st May.

A few days ago Sir F. Leith-Ross, who has been sent by H.M.G. to carry out an investigation into the situation, arrived in China. He had previously visited Japan in order to discuss China's financial & economic troubles with the Japanese Govt. One of the main difficulties in the situation is that we have reason to believe that at any rate some influential sections among the Japanese would not be sorry to see a financial & economic collapse in China, as this would probably help them to extend their control over the country.

Financial Sec.
For information 10th 1/x.

SEEN
POLITICAL COMMITTEE.
9 OCT 1935

Previous papers :—

F. 5857

3643 1000 3.35 1935

INDEXED

In any further communication on this subject, please quote
No. F4589/4589/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

P.Z. 6846 1935

148 India
Mr. R

THE Under-Secretary of State for Foreign Affairs presents his compliments to The Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Foreign Office,
26 Sept, 1935.

Reference to previous correspondence:

pp 6771.
492/35

✓

Description of Enclosure.

Name and Date.	Subject.
HM Representative Peking Despatch No 907 E. 4 7 June 1935	Economic and financial situation in China

MAILS BRANCH 27 SEP 1935 INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER NO. 40 3 OCT 1935 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Similar letter sent to Bd of T Treasury Dominions Office CO Dominions Office ECG Dept Economic Intelligence

THIS DOCUMENT IS THE PROPERTY OF HIS BRITANNIC MAJESTY'S GOVERNMENT

P.Z. 6846 1935

CHINA. July 16, 1935.

CONFIDENTIAL. SECTION 4.

[F 4589/4589/10]

Sir A. Cadogan to Sir John Simon.—(Received July 16.)

(No. 907 E.)

HIS Majesty's Minister, Peking, presents his compliments to His Majesty's Principal Secretary of State for Foreign Affairs, and transmits herewith copy of a despatch from the acting commercial counsellor, Shanghai, No. 140 E of the 31st May, 1935, respecting economic and financial matters from January to May 1935.

Peking, June 7, 1935.

Enclosure 1.

Mr. George to Sir A. Cadogan.

(No. 140 E.)

Sir, *Shanghai, May* 31, 1935.

WITH reference to your despatch No. 510 of the 8th October, 1934, I have the honour to forward herewith a brief report on economic and financial matters covering roughly the period from January to May 1935.

2. The delay in furnishing this report is regretted.

I have, &c.

A. H. GEORGE,

Acting Commercial Counsellor.

Enclosure 2.

Memorandum.

FROM an economic and financial point of view the year 1934 must be reckoned as one of the worst in China's history as an international trading nation. The value of her exports had fallen from 611,827,990 dollars in 1933, already a bad year, to 535,214,279 dollars, and of her imports from 1,345,567,188 dollars to 1,029,665,224 dollars. The value of the volume of trade in December was, moreover, less than in any preceding month, while the drain of bullion which had started in June, and of which the American silver purchasing plan was the proximate cause, had reduced the value of the silver stocks held in Shanghai from 594,056,000 dollars at the end of May to 335,912,000 dollars at the end of December. The Stock Exchange and the real estate market were stagnant, and the tightness of money, brought about as a result of the loss of bullion, and the freezing of the assets of the banks in Government bonds and real estate, was rendering trading increasingly difficult.

After the New Year, money became a little easier, but as a set off to this, exchange, which had been kept artificially low by the imposition in October of the flexible export duty, and uncertainty as to the fate of the dollar, began more nearly to approach its true parity with silver. The results of this movement, which might naturally have been expected to stimulate imports and to depress exports, was not, however, owing to exceptional circumstances, immediately apparent. The following are the figures of imports and exports, by months, for

the first quarter of 1935, compared with the first quarter of 1934. It is noticeable that these figures show a decrease in imports of 11·6 per cent. and an increase in exports of 5·3 per cent.

	1935. Dollars.	1934. Dollars.
Exports.		
January	55,248,808	50,775,783
February	41,523,134	38,035,733
March	39,046,563	40,115,421
	135,818,505	128,926,937
Imports.		
January	90,012,240	105,460,157
February	66,693,588	82,757,640
March	97,294,558	99,428,015
	254,000,386	287,645,812
Excess of Imports.		
January	34,763,432	54,684,374
February	25,170,454	44,721,907
March	58,247,995	59,312,594
	118,181,881	158,718,875

These comparatively satisfactory results cannot, unfortunately, be attributed to causes likely to be permanent. The increase in exports is due almost entirely to heavy demands from America for all classes of products which can produce fats and oils, of which that country, owing to drought and the policy of the Roosevelt Administration, is experiencing a shortage, while the high figure for imports in March was due to heavy withdrawals from bond locally in anticipation of tariff increases.

Owing to the exceptional circumstances which have provoked the present crisis, there is, at the moment, a tendency to concentrate on monetary remedies for its solution, and public attention is consequently closely focussed on the financial operation of the Government. Considerable interest has, therefore, been taken in the recent issue of 100 million dollars worth of Government bonds, ostensibly to "increase the capital of the three principal Chinese banks" and "to support the market." In effect, this measure, which is commonly regarded as a veiled form of inflation, appears to have given the Government complete control of the Bank of China and the Bank of Communications, and, including the silver possessed already by the Central Bank, control of approximately 70 per cent. of the silver stocks in Shanghai, inclusive of that held by foreign banks. The issue in question, which is secured on the customs revenue, is in its essence a loan to the Government by the banks, of which 65 million dollars have been reinvested in the capital of the banks by the Government. Its inflationary character has been expressly denied by Mr. T. V. Soong, but if the bonds are to be used as the basis of further credit (and it is difficult to see how they can support the market if they are not) it can only be assumed that this statement was made with the object of allaying public suspicion, since the market of recent months has proved abnormally sensitive to rumours and reports of all kinds. So far, however, the fate of the bonds themselves remains an enigma.

There can be little doubt that the movement for greater control of the three leading banks and, through them, of the lesser Chinese commercial banks has placed the Government in a stronger position, should it at any moment decide to embark upon a policy of devaluation of the dollar, or of going off silver, and linking the currency to some foreign exchange standard—an outcome which many people regard as inevitable if the present state of monetary stringency and trade depression continues much longer. It is, however, unfortunate that this policy of centralisation of control should have weakened the influence of the more conservative and independent bankers, such as Messrs. Li Ming and Chang Kia-ngao, who have hitherto directed the affairs of the Bank of China and are known to be the advocates of a "sound money" policy, and placed almost undisputed authority in the hands of a single individual, the former Minister of Finance, Mr. T. V. Soong (the brother-in-law of the present Minister of Finance, Dr. H. H. Kung, and of General Chiang-Kai-shek, and recently appointed

governor of the Bank of China). The latter, though credited with considerable ability and financial acumen, is playing rather a lone hand and is generally thought to be more ready to listen to the advice of economic theorists (there are a number of American advisers attached to the Ministry of Finance) and to experiment with revolutionary proposals, than the more conservative practical bankers. He is, however, at present in close touch with certain of the leading local foreign bankers, particularly British, and seeking their co-operation in maintaining confidence and keeping exchange steady. The leading Chinese and foreign banks have, moreover, recently agreed among themselves to refrain from the export of silver, and it is, for the time being, practically impossible to withdraw silver from China by legitimate channels, as the authorities resort to various pretexts for declining to issue the necessary permits, although export is still legal in theory on payment of the stipulated export duties. The profit to be realised by export is at the moment estimated at about 16 per cent., after payment of all duties and charges.

Ever since the present financial crisis began last autumn, those responsible for the finances of the Chinese Government have sought to find means of relieving the monetary stringency by obtaining credits in foreign countries or by the issue of a foreign loan. While, however, the Chinese Government would prefer to borrow from a single Power, and to break away from the consortium policy of international loans to China, none of the Governments in a position to furnish the necessary assistance have shown any readiness to do so except, as far, at any rate, as the Governments of Great Britain and the United States of America are concerned, as the result of international consultation and co-operation. While the Chinese Government are unwilling to submit to any conditions of international control in connexion with the proposed loan, His Majesty's Government require to be convinced that the loan will not simply be used for political purposes, but will effect a radical and lasting improvement in the monetary situation, possibly necessitating a change in the basis of the currency. While from statements in the press, it would appear that the Japanese Government are opposed to any assistance to China in the shape of an international loan and are themselves only prepared to give such assistance, in the form of agricultural credits, industrial loans, &c., as will promote the exchange of commodities between the two countries, there is reason to think that they may not be entirely opposed to the idea of an international loan, provided it is not used for political objects and is designed solely to relieve the monetary difficulties of this country. While certain of the leading foreign bankers in Shanghai support the idea of a loan from abroad, evidently fearing that without it the Chinese Government may be forced to take further steps in the direction of a managed currency, the outcome of which it is difficult to foresee, the leading Chinese bankers have shown considerable mistrust of the proposal, as tending merely to increase the financial obligations of the country to foreign Governments and swallow up the remaining available security, without effecting any but a temporary solution of the existing difficulties, the roots of which are firmly planted in the very serious adverse balance of trade.

In the meantime the Government are seeking all possible ways and means of improving the quality of China's produce, its marketing and distribution, in order to increase the country's exports. It has been decided, as a stimulus to export and interport trade, to abolish the export and interport duties entirely, and measures of this kind are expected to be introduced in the near future. It is not known, however, how the Government, which is continually at its wits' end for funds, is to make good the consequent loss of revenue. Interport tax last year realised 17 million dollars and export tax 24 million dollars. At the moment of writing it is expected that a further revision of the import duty rates will be introduced possibly as early as the 1st June next. Any such revision is likely to be of an upward tendency, in spite of the fact that the existing rates on many commodities are very high, and it is doubtful whether the trade will be able to bear any further burden in the shape of increased import duty imposed solely for revenue purposes. Where the existing rates are imposed to protect native industries, they may generally be said already high enough to give a sufficient margin of protection. It is, however, rumoured that the Chinese Government will merely collect an additional 10 per cent. of the existing duty on all or certain classes of commodities, rather than attempt to revise a large number of the duties on individual commodities.

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India

Pol

Mr R

In any further communication on this subject, please quote No. F 5940/6/10 and address—*not to any person by name*, but to—"The Under-Secretary of State," Foreign Office, London, S.W.1.

P.Z. 7043 1935

THE Under-Secretary of State for Foreign Affairs presents his compliments to The Under secretary of State for India, and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Foreign Office,
2nd. October, 1935.

6771 6946 } Pol 3/10

Reference to previous correspondence:

—

Description of Enclosure.

Name and Date.	Subject.
H.M. Ambassador at Tokyo, No. 412 of 14th August, 1935.	Proposed international loan to China.

ENCLOSURE IN WEEKLY LETTER
No. 41 10 OCT 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

REGISTRATION 3 OCT 1935 INDIA OFFICE

Similar letter sent to Admiralty, W.O., Air Ministry, C.O., D.O., Treasury, D.O.T., B. of T.

14—6130 11941 (2)

D

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P.Z.
7043
1935

JAPAN. September 16, 1935.

CONFIDENTIAL. SECTION 1.

[F 5940/6/10]

Sir R. Clive to Sir Samuel Hoare.—(Received September 16.)

(No. 412.)

Sir, *Tokyo, August 14, 1935.*

5459. IN my telegram No. 213 of the 8th August I stated that the commercial secretary's impression confirmed my own that the Japanese were indifferent to China's financial plight, sceptical of financial assistance to China at all, and that they definitely disliked the idea of an international loan. I added that they were far more interested in the eventual economic development of North China under their own control, and that is undoubtedly the policy of the Kwantung army which, in the past few months, has so successfully imposed its policy on the Japanese Government.

2. The *Kokumin*, a Nationalist journal which has the reputation of being in close touch with the military, has a leading article this morning which is briefly summarised below as being very typical of the general attitude of the Japanese press on the subject of an international loan to China.

3. Under the heading "The Starting-Point of Negotiations between Great Britain and Japan" the article, after explaining how it has come about that Sir F. Leith-Ross is being sent on a mission to China, goes on to say that Japan is absolutely opposed to a joint investigation or joint assistance. A joint loan or joint assistance to China would be to bring the country under the control of the Powers. Japan, in view of her special position, is the sole stabilising influence in the Far East. It does not matter what Sir F. Leith-Ross's mission is, nor what kind of negotiations he has with the Japanese Government, his visit will be fruitless unless this fact is recognised. The recovery of China and the maintenance of British rights in China can only be looked for by co-operation with Japan. There are many questions besides those relating to China which Great Britain and Japan have to decide, but in regard to all these Great Britain must first recognise Japan's position in the Far East.

I have, &c.
R. H. CLIVE.

Pwtb 153
1932
16/1

SIR F. LEITH-ROSS IN CHINA

FROM OUR CORRESPONDENT

SHANGHAI, SEPT. 22

Sir Frederick Leith-Ross, who arrived here yesterday from Japan, conferred with Mr. T. V. Soong, the former Minister of Finance, to-day and is leaving for Nanking to-night for a conference with the Chinese Government. In conversation with Chinese Pressmen Sir Frederick referred to the friendly reception he had had in Japan, and said that the British Government desired information as to the nature of China's difficulties. In refusing to answer whether a loan was possible, Sir Frederick pointed out that some of the Chinese loans were good and some bad, and that the investor was getting "tough" and wanted security for his money.

Times 23rd Sept.

ff 7280.
P.Z.492
35.

SIR F. LEITH-ROSS IN NANKING

FROM OUR CORRESPONDENT

SHANGHAI, SEPT. 23

Sir Frederick Leith-Ross and his party were well received in Nanking, where Sir Frederick is staying with Mr. H. H. Kung, the Minister of Finance, with whom he conferred this morning. He is seeing Wang Ching-wei, President of the Executive Yuan, this afternoon. In conversation with representatives of the Chinese Press, Sir Frederick intimated that he was trying to devise ways of promoting British trade with China, but that no concrete programme would be outlined until after he had met all the important Chinese leaders. Sir Frederick scoffed at the rumours to the effect that his visit was intended to link China with sterling. To-morrow he is to meet the Ministers of Railways and of Industries.

Times 24th Sept

INDEXED

In any further communication on this subject, please quote
No. F 5886/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W.1.

P.Z. 6795 1935

Pol 154 India
Mr R

THE Under-Secretary of State for Foreign Affairs presents his compliments to The Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Pub by Parl Papers 25/9.

Foreign Office,
23 Sept., 1935.

Pp 6712

Reference to previous correspondence:

✓

Description of Enclosure.

Name and Date.	Subject.
HM Ambassador Rome Despatch No. 1057 of 10 Sept 1935	Financial situation in China: British policy

FOREIGN OFFICE 24 SEP 1935 INDIA OFFICE

ENCLOSURE IN [illegible] LETTER
NO. 39 26SEP 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Similar letter sent to cs
Bkft
Treasury
BoT

14—6130 11941 (2)

P.Z.
6786
1935

COPY.

(F 5886/6/10)

No. 1057.

(164/2[illegible]/35)

BRITISH EMBASSY,

ROME.

10th September 1935.

Sir,

I have the honour to inform you that the "Giornale d'Italia" of September 10th contains an editorial note referring to the arrival in Japan of Sir Frederick Leith-Ross, and to his announced stay of three weeks in that country.

2. After referring to reports from Japanese sources to the effect that Sir Frederick would during his visit to Japan discuss with representatives of Japanese trade and commerce the possibilities of developing commercial relations and a common policy for furnishing China with the necessary economic assistance, the newspaper states that such an apparent rapprochement should be considered in connexion with the recent campaign in the British press for sanctions against Italy. The same British circles, it adds, who are now inveighing against Italy did not contest with equal violence and equal threats a Japanese invasion of Chinese territory which took place in spite of the desperate appeals of China to the League of Nations and in spite of the Lytton report, which was simply put on one side by the Government of Tokio.

3. All this, in the opinion of the "Giornale d'Italia", shows that "England is disinteresting herself in the sanctity "of treaties and in the integrity of the territory of China -

a/

The Right Honourable
Sir Samuel Hoare, G.C.S.I., G.B.E., C.M.G.,
etc., etc., etc.

"a member of the League of Nations - and negotiates with
"Japan regarding a common collaboration, in other words in
"regard to the sharing of profits on Chinese territory".

I have, etc.
(For the Ambassador)
(Signed, E.M.B. Ingram.

INDEXED

London 157

Mr R

In any further communication on this subject, please quote
No. F5949/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

CONFIDENTIAL
P.Z.
6771
1935

THE Under-Secretary of State for Foreign Affairs presents his compliments to the Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Foreign Office,
23 Sept, 1935.

pp 6712.

Reference to previous correspondence:

✓

Description of Enclosure.

Name and Date.	Subject.
JWM Representative Peking Despatch No: 1141. of 13 July 1935.	Chinese silver and financial situation: Loan proposal

RECD. POL. DEPT.
24 SEP 1935
INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER
No. 39 26 SEP 1935
SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Similar letter sent to Co. Treasury Bud. Dept.

14—6130 11941 (2)

COPY.

158

P.Z. 6771 1935

(F 5949/6/10)
CONFIDENTIAL BAG.

No. 1141 (241/36/1935).

His Majesty's Ambassador Peking, presents his compliments to His Majesty's Principal Secretary of State for Foreign Affairs, and transmits herewith three copies of the undermentioned paper

Peking.

July 13th, 1935.

Reference to previous despatch:

Telegrams to Foreign Office Nos. 650 and 651 of 6/7/35.

Description of Inclosure

Name and Date.	Subject.
Record of interview with Monsieur Monnet, 25th June, 1935.	Chinese Currency Situation and Loan Proposal.

Copied to: Diplomatic Mission.
Commercial Counsellor.

Interview, Monsieur Monnet with His Majesty's Ambassador on the 25th June, 1935.

Monsieur Monnet left with His Majesty's Ambassador the attached memorandum and figures illustrative of the Silver and financial situation which are supplementary to those enclosed in His Majesty's Ambassador's despatch to the Foreign Office No. 53 Tour Series of the 18th June, 1935 (236/36/35), which was despatched by post via Siberia from Shanghai on 19th June (239/36/35).

Monsieur Monnet explained that the figures had been obtained by Dr.T.V.Soong in response to a questionnaire which he had circulated to the Chinese banks in Shanghai.

With regard to the memorandum Monsieur Monnet stated that he himself had drawn it up, but that it had been shown by him to Dr. T.V.Soong, Mr.H.H.Kung, and Mr. Menchman, all of whom had approved it. His Majesty's Ambassador pointed out to Monsieur Monnet that, in those circumstances, the transmission of the memorandum to His Majesty's Government might be construed as acceptance by His Majesty's Government for consideration of proposals from the Chinese Government, a proceeding which His Majesty's Government had declined to countenance except on the understanding that such proposals should be also communicated to the other interested Governments. Monsieur Monnet was emphatic that the memorandum was in no sense to be regarded as a proposal made by the Chinese Government, or by Dr. Soong or Mr. Kung: it was his own appreciation of the situation, and the suggestion for a remedy by way of a sterling loan was his own personally. No representative of the Chinese Government had charged him to give any message to, or to make any request of His Majesty's Ambassador. If, as a result of a consideration of the facts set forth in the memorandum, His Majesty's Government were to decide to relax the ban on foreign lending, the loan which would eventuate would appear as the result of recommendations made by the Hongkong and Shanghai Bank to relieve the currency situation.

His/

His Majesty's Ambassador informed Monsieur Monnet that the additional particulars he had provided regarding stocks of silver and the financial position would be communicated to His Majesty's Government before the middle of July, by which time a report of their discussions on the 13th and 17th of June should have been received in the Foreign Office.

(Initialled) J.C.H.

June 6th, 1936.

1. After a prolonged period of depression in China and the export of $320,000,000 of silver during 1934, it is becoming daily more evident that the structure of the banking system has been greatly weakened and the financial situation is becoming grave.

2. The confidence of the people in the banks is still upheld, due mainly to the skillful handling of the situation by the Government. That over the course of the last few months the amount of total deposits in the modern banks has been even slightly on the increase is good evidence of the confidence of the people in their Government and banks.

3. Nevertheless, the amount of silver held by the Chinese banks is too small and is insufficient to permit that expansion of currency to take place which is so necessary to unfreeze the financial market.

4. Following are given the figures on the stock of silver and notes in circulation as of May 31st and the percentages calculated thereon:-

	23 Banks	Excluding 3 Government Banks
A. Stock of Silver	$230,000,000	$67,000,000
	Issued by 10 Banks	Excluding 3 Government Banks
B. Notes in Circulation	$352,000,000	$100,000,000
C. Percentage of Cover	65%	67%

5. From the above it can be seen that there is no hope of an expansion of currency because the legal cover against notes is 6 0%. It is not wise under present circumstances to reduce the legal requirement on specie cover because the public would certainly construe the measure as a first step towards inflation.

6. Following are the figures pertaining to the deposits as"

as of May 31st, and some percentages calculated thereon:

	23 Banks	Excluding 3 Govt. Banks	Native Ba on last Settlement da
A. Demand Deposits	$522,300,000	$193,600,000	
B. Fixed Deposits	335,100,000	265,500,000	
Total	$857,400,000	$459,100,000	$208,300,000

C. Silver in all modern banks to their notes and demand deposits.....26%

D. Silver in all modern banks to their notes and total deposits.....19%

E. Silver in all modern and native banks to their notes and total deposits.....17%

F. Silver in all modern and native banks excluding the 3 Government Banks to their total notes and deposits.....5%

7. Native Banks. Before the depression real estate in Shanghai was always regarded as possessing a very high degree of liquidity. The foreign banks were at all times willing to make loans or advances on it as security, and the native banks availed themselves of the facilities extensively. The depression altered the status of real estate as a banking asset. With foreign banks no longer accepting it as security on loans the native banks had to call often on the 3 Government banks for financial help. Of the $208,000,000 of deposits received by them on the last settlement day, it was found that 32% had been invested in loans secured on real estate and 52% in commodity and other loans. Due to falling prices in land and commodities as a result of the depression these loans have to a large measure become frozen, and they are now obliged to restrict credit granted to business and industry. During the last few months the 3 Government banks have been obliged to assist the native banks with 25 million dollars against real estate held by them.

8. Modern Banks. The assets of the modern banks are as follows:

A./

	25 Banks		Excluding 5 Government Banks	
A. Government Bonds	$152,500,000		$99,200,000	
B. Total Loans	$501,600,000	100%	$313,600,000	100%
1. Secured on Govt. Bonds	190,700,000	38%	92,400,000	29%
2. Secured on Real Estate	138,200,000	26%	87,200,000	28%
3. Secured on Commodities	62,900,000	12%	49,800,000	16%

A good part of the Government bonds owned by the banks is earmarked as reserves against notes issued and savings deposits, and the amount available for sale is consequently small. The bonds market recently has been narrow and exhibiting an easy undertone, and is in no position to absorb any sizable amount of offering. The loans on real estate and commodities are, like those held by the native banks more or less frozen and cannot be converted into liquid funds with short notice. Assistance similar to that given to native banks have been given to weaker banks of issues.

There is no rediscounting system in China and even if there were it could not function with the meagre silver resources at the disposal of the 5 Government banks.

9. Latest financial news from Tientsin, Peiping, and Hankow indicated that a number of native banks in these cities have failed and more failures are expected of native banks and small modern banks. Shanghai has already extended financial help to the banks in these cities. Whether or not Shanghai itself will be seriously affected remains to be seen. It is deemed, however, that no effort should be spared to hold the situation until the arrival of the international experts who will make a careful study and formulate appropriate recommendations with a view to arm the 5 Government banks with sufficient liquid resources to meet any emergency that may happen during the next few months it is suggested that a loan in pound sterling should be obtained by the Chinese Government at once. This loan could

take/

take the form of either a credit granted by the Bank of England to the Central Bank of China or a loan issued in Shanghai, Customs revenue being offered as security. In the latter case the loan could be underwritten by a group of foreign banking interests in Shanghai in cooperation with the Chinese interests, and the role of the British Treasury would be limited to not opposing its subscription. It would be understood that if a large financial scheme resulted from the consultation of Sir Frederick Leith-Ross and his colleagues, this loan would be refunded or exchanged for bonds of the larger issue. If a larger issue did not eventuate the Treasury would be asked to assist in obtaining a quotation on the Stock Exchange in London for this issue.

10. Taking into consideration the figures of frozen assets held by the banks, the amount of the loan should be about between £5 to £10 million. It would be secured on the Customs surplus, or the Customs 5% revenue surtax, proceeds to be paid over in Sterling to the 3 Government banks with the specific purpose of providing cover for an expansion of credit and currency. The new resources afforded by this loan would be applied rigidly by the 3 Government banksfor the following uses: 1 granting short term loans to deserving industries against raw material or manufactured goods, 2 supporting solvent banks that may be temporarily inconvenienced by too much frozen assets. In this way the situation will be held until the arrival of the international experts, and time is afforded them for adequate consultation.

(1) Notes in Circulation and Current Deposits

(Excluding 3 Government Banks)

		(A) Notes in Circulation	Current Deposits	Total
1934	January	$110,433,334	$209,986,321	$320,419,655
	February	107,836,227	218,788,229	326,614,456
	March	105,352,442	227,441,049	332,793,491
	April	108,073,938	217,279,010	325,352,948
	May	107,506,508	216,826,235	324,332,743
	June	115,575,960	227,737,018	343,312,978
	July	113,288,551	231,983,388	345,271,939
	August	118,0[illegible]5,559	223,399,746	341,495,305
	September	122,654,776	219,430,905	342,085,681
	October	124,625,856	232,089,689	356,715,555
	November	134,778,545	226,638,316	360,466,861
	December	128,523,170	221,033,598	349,556,768
1935	January	126,071,597	208,792,322	334,863,919
	February	114,334,267	201,[illegible]44	315,656,311
	March	103,656,593	199,684,213	303,340,806
	April	97,427,448	199,018,482	296,445,930
	May	100,109,036	193,558,257	293,667,293

(2) FIXED DEPOSITS

(EXCLUDING 3 GOVERNMENT BANKS)

1934	
January.	£233,963,648
February	239,082,474
March	246,545,845
April	251,563,222
May	255,462,834
June	259,400,343
July	265,716,892
August	269,182,524
September	271,953,670
October	273,090,605
November	273,513,489
December	275,377,747
1935.	
January	270,659,600
February	274,159,399
March	272,592,321
April	270,278,847
May	265,516,071

(3) Government Bonds

(Excluding 3 Government banks)

		Domestic Bonds	Foreign Bonds	Total
1934	January	¥55,299,217.26	¥22,315,173.18	¥77,614,390.44
	February	54,410,660.10	22,217,698.32	76,628,458.42
	March	59,187,879.45	23,933,980.73	83,121,260.18
	April	63,218,540.24	25,309,810.88	88,528,351.12
	May	66,709,010.58	24,791,408.58	91,500,419.16
	June	60,480,895.76	24,353,907.27	84,834,803.03
	July	78,487,935.15	25,417,097.03	103,905,032.18
	August	68,635,317.74	25,775,885.81	94,411,204.05
	September	64,768,389.39	25,288,689.12	90,057,078.51
	October	63,842,709.02	26,666,519.56	90,509,228.58
	November	62,006,841.28	26,716,209.50	88,723,050.78
	December	64,117,261.29	27,169,906.37	91,287,167.66
1935	January	64,384,727.40	27,600,341.78	91,985,069.18
	February	66,765,213.85	26,001,255.27	92,766,469.12
	March	68,041,899.01	25,159,341.39	93,200,740.40
	April	67,422,099.10	23,991,029.11	91,413,128.21
	May	70,360,462.77	23,832,140.60	95,192,603.37

(4) Loans (excluding 8 government banks)

A. Loans secured on Government Bonds	¥92,445,542
B. Loans secured on other Bonds and Stocks	24,166,720
C. Loans secured on commodities, Inc. goods in course of production and/or transportation	49,157,369
D. Loans secured on Real Estates	87,244,243
E. Loans on securities other than the above	60,841,003
Total	¥313,573,776

(5) All Forms of Silver

Unit-$1

		In All 23 Reporting Banks	Excluding the Central Bank of China
1934	January	256,577,623	162,548,352
	February	264,468,792	169,947,051
	March	274,194,806	178,169,08[illegible]
	April	282,567,656	184,680,710
	May	285,851,726	181,800,125
	June	282,521,185	170,435,215
	July	294,020,612	179,950,229
	August	280,461,169	168,645,912
	September	272,727,407	165,163,[illegible]08
	October	264,156,231	160,522,186
	November	260,036,516	158,059,826
	December.	229,260,160	141,595,612
1935	January	230,427,213	142,517,025
	February	227,151,460	140,157,635
	March	230,477,524	143,118,400
	April	230,537,273	141,454,253
	May	230,000,000	148,110,195

(6) All Forms of Silver

(Excluding 3 government banks)

1934	January	₱31,116,724
	February	31,687,544
	March	30,751,462
	April	42,561,075
	May	38,084,929
	June	17,015,676
	July	38,628,198
	August	42,682,890
	September	35,965,508
	October	30,106,326
	November	32,074,502
	December	31,880,420
1935	January	29,622,100
	February	27,438,656
	March	40,435,145
	April	31,384,321
	May	36,920,291

COPY.

Shanghai Office
Ministry of Finance
15 The Bund

Confidential.

June 24th, 1935.

Total amount of loans outstanding from banks to the Ministry of Finance, May 31, 1935.

Data from Treasury Department of the Ministry of Finance.

	Loans by banks other than Central Bank	Loans by Central Bank
(1) Loan from other banks	$61,349,675.12	
(2) Loan from Central Bank		$[illegible],618,327.82
(3) Advances from Central Bank		47,[illegible]00,000.00
(4) Italian Indemnity Loan (44,000,000.00)	34,[illegible]38,750.00	3,[illegible]86,250.00
(5) Stamp Tax Loan (30,000,000.00)	10,600,001.00	1,999,999.00
	$106,18[illegible],376.12	$58,804,575.82
Grand Total		$161,99[illegible],951.94

As of June 20,1935, item 3 above stood at $[illegible]3,700,000. It increases from the beginning of the month and is reduced by revenue payments at the end of the month.

On additional to the foregoing advances of about $55,000,000, the Central Bank as of May 31,1935, held Government obligations amounting to about $120,000,000. This is exclusive of Government bonds held to secure note issue, which amounted to about $[illegible]2,000,000 as of June 18,1935.

Note issue and cash holdings of the Central Bank.

	May 31	June 15
Note circulation	$9[illegible],613,000	$161,184,000
Silver held in vault against notes	64,[illegible]03,000	67,[illegible]05,00[illegible]

Silver/

Silver holdings of banking department	17,440,000	11,617,000
Total silver	81,945,000	79,722,000

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CONFIDENTIAL

Immediate.

P.Z. 6712 1935

Public Dept. 23/9.

Pr. 6694

Pr. R. 23/9.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
No. 39 26 SEP 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Foreign Office,

21 SEP 1935, 193 .

The Under-Secretary of State,
India Office.

RECD. POL. DEPT.
23 SEP 1935
INDIA OFFICE

8—11131 (4)

P.Z.
6712
1935

[redacted].

Decypher. Sir A. Clive. (Tokyo).
September 18th. 1935.

D. 7.5.p.m. September 18th. 1935.

R. 1.5.p.m. September 18th. 1935.

No. 249.

-------oOo-------

My telegrams Nos. 239 and 248.

Before arrival of Sir F. Leith Ross Japanese authorities were intensely suspicious. By the time he left attitude had changed. They were throughout non-committal and sceptical but I think very friendly tone of the King's letter made excellent impression. Vice Minister for Foreign Affairs begged Sir F. Leith Ross yesterday to return to Japan after his investigations and said Japanese authorities would carefully consider any proposals he might have to make. If they had none to make themselves he said it might be because Japan and China were too near neighbours and that a fresh mind would be more successful. Atmosphere yesterday was very friendly and I feel Sir F. Leith Ross succeeded in disarming Japanese suspicions of British intentions.

In any further communication on this subject, please quote
No. F5892/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

INDEXED

6697

P&O 175 Eureka Lent R

Pur-by 10th R 23/9.

THE Under-Secretary of State for Foreign Affairs presents his compliments to The under secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Foreign Office,
20 Sept, 1935.

pp 6488

Rejd Tin 23/9

Reference to previous correspondence:

✓

Description of Enclosure.

Name and Date.	Subject.
HM Ambassador Tokyo Despatch No. 428 of 23 Aug 1935.	Financial situation in China

Similar letter sent to Co Treasury Budget Dept.

14—6130 11686 (2)

INDIA OFFICE 21 SEP 1935 MAILS

ENCLOSURE IN WEEKLY LETTER
NO. 39 26SEP 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

P.Z. 6697

Copy.
(F 5892/6/10).
Via Siberia.
I .428 (184/68/35)
Copy to Peking.

British Embassy,
Tokyo.
23rd August, 1935.

Sir,

With reference to my despatch No.412 of 14th August, in which a summary of an article appearing in the "Kokumin" was given, I have the honour to report that the announcement of Sir F. Leith Ross' mission to China and news of the Governmental crisis in that country, owing to the resignation of Mr. Wang Ching-wei, has given rise to a number of articles of a somewhat truculent character emphasising that Japan is the only stabilising factor in the Far East and "that other Powers had better take notice of this fact, more especially Great Britain".

2. The "Hochi" of the 14th August says, for example, that it desires to take the opportunity presented by the situation created by Mr. Wang's resignation to "drive home to the Chinese that there has been considerable change in the situation in the Far East during the past few years and that Japan has come to occupy a position which permits her to direct the course of events there." The Western Powers have been unable to check Japan's advance and they are being reduced to a position where they cannot disregard the wishes of Japan if they wish to do anything in the Far East. Mr. Wang's successor will have to recognise that Japan is "the only country in the Far East with any real power".

S./

The Right Honourable
Sir Samuel Hoare, Bart., G.C.S.I., G.B.E.,
etc., etc., etc.

3. The article concludes by saying that the Conservatives, who are in power in Britain, are not so ignorant of the actualities of the situation as to think of disregarding Japan, and before sending Sir F. Leith Ross to China expressed a desire for Japan's co-operation. "This fact", says the article, "would seem to enable us to form an idea of the newly orientated British China policy!

I have the honour, etc.,

(Sgd.) R.H. Clive.

INDEXED

In any further communication on this subject, please quote
No. F 5730/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

P.Z. 6467 1935

Put by 178 H 25/9 India WR L&St.

THE Under-Secretary of State for Foreign Affairs presents his compliments to The Under Secretary of State for India and, by direction of the Secretary of State, F 5452 transmits herewith copies of the under-mentioned paper.

Foreign Office,
12 Sept, 1935.

Mr R to see 13/9. 21/9.

Financial See

Reference to previous correspondence: For information

✓ Sir, Thank you. H. 27.10.35.

H 15/9

Description of Enclosure.

Name and Date.	Subject.
HM Representative Peking Despatch No. 1233 of 2 August 1935	Punishment of offenders impairing National currency

MAILS BRANCH 13 SEP 1935 INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER NO. 38 19 SEP 1935 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

F. 5701 1935

Similar letter sent to CO Do Treasury Board of Trade Dot

14—6130 11941 (2)

COPY

(F 5730/6/10)

P.Z. 6467 1935

BRITISH EMBASSY,
at PEITAIHO.
2nd August, 1935.

I. 1233 (228/36/1935)

Copied to:-
Consuls.

Sir,

With reference to my despatch No. 978 of 18th June last, I have the honour to transmit herewith copy in translation of a Provisional Ordinance for the Punishment of Offenders Impairing the National Currency. The Ordinance was promulgated and enforced on 15th July 1935 and published in the National Government Gazette of the following day.

I have &c.,
(Signed) Alexander Cadogan.

The Right Honourable
Sir Samuel Hoare, G.C.S.I., G.B.E., C.M.G.,
etc., etc., etc.,
FOREIGN OFFICE.

PROVISIONAL ORDINANCE FOR THE PUNISHMENT OF OFFENDERS IMPAIRING THE NATIONAL CURRENCY.

Promulgated and enforced on 15th July, 1935, and published in the National Government Gazette of 16th July, 1935.

Article 1. Those who destroy by melting down silver coins or bar silver minted by the Central Mint, with intent to make profit thereby, shall be punished by imprisonment for a period not less than one year and not more than seven years; the offenders may also be subject to a fine of not more than $1,000 in addition to imprisonment.

Article 2. Those who smuggle silver coins or Central Mint bar silver or silver metal in general out of the territorial limits of the Republic of China, with intent to make profit thereby, shall be punished with death, or imprisonment for life or for a period not less than seven years; offenders may also be subject to a fine of not less than the amount smuggled and not more than five times its value.

Article 3. Those who counterfeit or alter bar silver minted by the Central Mint, or reduce the weight thereof, or utter or with intent to utter collect or deliver the same, shall be punished according to the provisions of the Criminal Code on the subject of offences relating to false currency.

Article 4. Silver coins, or bar silver, or silver metal in general, melted down or smuggled abroad, shall be confiscated, whether the same belongs to the offender or not.

Article 5. An attempt to commit an offence under this ordinance shall be punishable.

Article 6. The period of enforcement of these regulations shall be two years.

Article 7. This Ordinance shall come into force from the date of promulgation.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

MAILS BRANCH
14 SEP 1935
INDIA OFFICE

Foreign Office,

13 SEP , 193 .

The Under-Secretary of State,
India Office.

ENCLOSURE IN WEEKLY LETTER
NO. 38 19 SEP 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

8—11131 (4)

[This Document is the Property of His Britannic Majesty's Government, and should be returned to the Foreign Office if not required for official use.]

F.Z. 6486 1935

From CHINA.

Decode. Sir A. Cadogan. (Peking). September 12th.1935.

D. (by wireless) September 12th. 1935.

R. 9.30.a.m. September 13th. 1935.

No. 858.

--------oOo--------

Following received from Hongkong No. 46 September 10th.

Shanghai Consul General's telegram No. 78 to you. 6377

Bank of Canton.

Petition filed here September 4th and official Receiver appointed provisional liquidator with special manager who has requested Shanghai manager by telegraph to initiate ancillary winding up proceedings there but no reply yet received.

Repeated to Consul General, Shanghai, No. 64; Mission, Nanking No. 35.

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Times

BRITISH MISSION TO CHINA

SIR F. LEITH-ROSS IN TOKYO

MEETING WITH MR. HIROTA

FROM OUR OWN CORRESPONDENT

TOKYO, SEPT. 11

It is officially announced that the Emperor will receive Sir Frederick Leith-Ross, Chief Economic Adviser to the British Government, on whose behalf he is to visit China to examine financial and economic conditions there.

Sir Frederick Leith-Ross met Mr. Hirota and Mr. Shigemitsu, the Minister and Vice-Minister for Foreign Affairs, yesterday, in the presence of Sir Robert Clive, the British Ambassador. Feeling that his role was that of a listener, Mr. Hirota reserved his opinion and the views exchanged were purely exploratory.

On the Japanese Ministers' side it was pointed out that Chinese economy, based, as it is, on agriculture, has greater staying power than is shown by financial statistics. It was suggested that political stability was the chief need of the country. Mr. Hirota said he hoped Sir Frederick would keep in touch with Mr. Ariyoshi, the Japanese Ambassador to China, and that he would revisit Japan on his way home.

The vernacular newspapers report fairly that Sir Frederick Leith-Ross has come not with any definite proposals, but simply to examine the situation afresh and to ascertain what measures may be practicable. They emphasize his intention to maintain contact with the Japanese authorities and the likelihood that he will return to Tokyo.

While the principal vernacular newspapers refrain from comment, the *Japan Times* says that politics cannot be isolated from finance, as any loan to China is a loan to the Nanking Government. Sir Frederick must recognize the great importance of China to Japanese security, financial and otherwise. Once this is realized he will see that certain imponderable factors affect the situation, although they may not be mentioned.

JAPAN AND CHINESE FINANCES

VIEWS ON BRITISH MISSION

FROM OUR OWN CORRESPONDENT

TOKYO, SEPT. 17

Sir Frederick Leith-Ross, who was received in audience by the Emperor of Japan to-day, leaves for China to-morrow. He has been told that if a practicable plan of financial assistance for China can be devised in consultation with the Chinese Government, the Japanese Government will give it serious consideration.

Ministers and officials have shown themselves frank and friendly, but sceptical. They have pointed out that financial aid, to be effective, would involve foreign supervision.

The Chinese, they argue, strongly object to foreign control, and the Japanese sympathize with their objection. There is thus created a vicious circle which they believe would prove difficult to break. They agree that Shanghai's difficulties are serious, but point out that China has always shown great powers of recuperation and believe that the development of self-help would be more useful than fresh loans to China, where the prospects of political stability are thought to be improving.

INDEXED

In any further communication on this subject, please quote No. F4855/6/10 and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W.1.

P.Z. 6452 1935

184 India

THE Under-Secretary of State for Foreign Affairs presents his compliments to The under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Foreign Office,
11 Sept, 1935.

6377 - P.Z. 4422/35

Reference to previous correspondence:

✓

Description of Enclosure.

Name and Date.	Subject.
HM Representative Peking Despatch No. 944 of 13 June 1935	Chinese Finance Report

MAILS BRANCH 12 SEP 1935 INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER NO. 38 19 SEP 1935 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Similar letter sent to Treasury Board of Trade

14—6130 11941 (2)

THIS DOCUMENT IS THE PROPERTY OF HIS BRITANNIC MAJESTY'S GOVERNMENT

CHINA. July 26, 1935.

CONFIDENTIAL. SECTION 1.

P.Z. 6452 1935

[F 4855/6/10]

Sir A. Cadogan to Sir Samuel Hoare.—(Received July 26.)

(No. 944.)

Sir, *Peking, June 13, 1935.*

I HAVE the honour to transmit to you herewith a copy of a despatch from the acting commercial counsellor commenting on the Ministry of Finance "Report for the 21st and 22nd Fiscal Years" which formed the enclosure to Sir Alexander Cadogan's despatch No. 802 of the 23rd May last.

I have, &c.
(In the absence of the Minister),
D. J. COWAN.

Enclosure.

Mr. George to Sir A. Cadogan.

(No. 139.)

Sir, *Shanghai, May 30, 1935.*

I HAVE the honour to forward herewith copies of the report for the 21st and 22nd Fiscal Years (July 1932 to June 1934) recently issued by the Ministry of Finance of the National Government at Nanking.(1) The issue of this report, which gives a comprehensive review of the financial situation during the period in question, follows the practice established by Dr. T. V. Soong when he was Minister of Finance, and is the first of its kind to be published since Dr. H. H. Kung assumed that office on the 29th October, 1933. The last report issued by Dr. T. V. Soong (for the 19th and 20th Fiscal Years) was forwarded to the Foreign Office in Mr. Ingram's despatch No. 53 of the 12th January, 1933.

2. While, as regards certain of the figures published in this report, there is some reason to feel that they do not tell the whole truth, it is difficult to criticise individual items. The Minister of Finance admits to a net deficit of 86 million dollars and 147 million dollars, respectively, for the two years in question, though he points out that, as a set-off against borrowing during these fiscal years, loans equivalent to some 100 million dollars and 115 million dollars were retired. It has, however, to be remembered, as has been pointed out previously, that these reports deal only with those obligations of the Government which come under the control of the Ministry of Finance. Nothing is said about the unsecured loans and the railway loans, which are heavily in default. For the latter loans, at any rate, the Ministry of Finance has hitherto declined to accept responsibility, even where such loans are secured on revenues directly under its control. The report, however, states that there is now closer co-operation between the Ministry and the various Government organisations than previously existed, and that the accounts of the Ministry include "certain receipts and payments of branches of the Government other than the Ministry of Finance." There is some reason to hope, therefore, that in the course of time the accounts and expenditures (as well as the loan obligations) of all the various Ministries and other departments of the Government will be centralised under the Ministry of Finance, in accordance with the proposal submitted by the latter Ministry in January 1933, and approved by the Government.

3. Dr. Kung points out that, for nearly two years ending with the autumn of 1933, the Government issued no new bonds for general purposes. In the latter part of that period, the deficit was covered by drawing upon reserves, by increasing the floating debt, and to some extent by marketing unissued bonds of previous authorisation, but by October 1933 the persistent deficit, which was then at the

(1) Not printed.

rate of 10 million dollars monthly, necessitated the issue of a new loan of 100 million dollars, the first new issue for general purposes since December 1931. This was followed by another issue of a similar amount in January 1934 used to repay advances already made by the Central Bank of China, while in the same month the Italian Boxer Indemnity Loan for 44 million dollars was floated.

4. Military expenditure, totalling some 301 million dollars and 373 million dollars for the two years under review, still represents nearly 50 per cent. of the total payments of the Government and more than 50 per cent. of the total net revenue, and though some of this money represents payments made in previous years, as well as reconstruction expenses in areas rescued from the Communists, it has clearly not been possible to keep this expenditure down to the 18 million dollars a month fixed at the Disbandment Conference of 1929 (see paragraph 5 of Mr. Ingram's despatch above-mentioned and p. 2 of Dr. Soong's report enclosed therein). As Dr. Kung points out, the Government's task in the reduction of military expenditure is a difficult one, for disbandment without absorption of men into peaceful activities merely drives them into the ranks of the bandits or Communists.

5. Dr. Kung notes with gratification the considerable rise in prices of external bond issues in the London market, though these increases must be ascribed to a large extent to the cheapness of money in that market. It is perhaps unfortunate that the steps taken by the Government to improve the management of the railways and to arrange for the settlement of railway debts in arrears, to which he also refers, have not been more convincing, though something has been accomplished in the latter direction.

6. The customs revenues for the two fiscal years are given as 325 million dollars and 352 million dollars respectively, while the gross yield of the several sources of customs revenue for the calendar years 1932, 1933 and 1934, are given as 312 million dollars, 340 million dollars and 335 million dollars respectively. The decline in yield from the 1931 level is ascribed to the fall in the value of imports passing through the customs. In 1933 there was a drop of approximately one-third in the value of both imports and exports as compared with 1931, after making allowance for the exclusion of the Manchurian revenues subsequent to June 1932, while in 1934 the total trade declined 20 per cent. as compared with 1933. The report observes that none of the Manchurian revenue collection since the seizures during the first half of 1932 has been made available for the service of China's custom-secured obligations, despite the undertakings that such contributions would be made. Reference is made to the Government's decision to abolish interport duty in the very near future (instructions had actually been issued to the customs to do this as from the 1st June, though the order has now been postponed), and to make further very considerable reductions of, and exemptions from, export duty, with a view to its " substantial abolition " at an early date. It is recognised that high tariff rates have encouraged smuggling, but it is claimed that the success of the preventive service is reflected in the recent increase of importation through the customs of many kinds of goods which were previously smuggled. It will be noted that the customs revenues (which, for some unexplained reason, are here ranked second to salt revenues) for the fiscal year ending the 30th June, 1935, are estimated at the seemingly optimistic figure of 382 million dollars.

7. Various reforms are claimed in the Salt Administration, and a progressive increase in the revenues. Similarly, the gross collections of the five principal consolidated taxes, which in 1933 amounted to over 85 million dollars, are stated to have exceeded 110 million dollars in 1935, a considerable increase.

8. Referring to the decisions of the Second Financial Conference held at Nanking in May 1933, at which several decisions were passed regarding the reform of local and provincial taxation, it is claimed that over 3,000 items of miscellaneous taxes, representing a revenue of 28 million dollars, have already been abolished by the provincial and municipal authorities.

9. A very interesting section is the description on page 13 of the report of the results of the American Cotton and Wheat Loan of 1933. It is there stated that all the cotton and wheat (the credits of 10 million United States dollars and 6 million United States dollars respectively for which were fully utilised) bought under this agreement was sold for enough to cover the purchase cost plus freight and insurance, and that although some merchandising loss was incurred in the case of the flour (of the credit of 4 million United States dollars

for which, only 1 million United States dollars was apparently used) this affected only about 6 per cent. of the entire amount utilised out of the credit. There was some operating loss on the transaction, but this loss was accounted for entirely (except as to flour) by certain exceptional charges inherent in the loan arrangements, such as the disparity between American and world prices for wheat, and the stipulation that half of the commodities must be shipped in American flag vessels. The net proceeds of the loan, after allowing for all expenses and repayment of principal up to March 1935, are said to amount to 38 million dollars, including 3,844,000 dollars paid and to be paid for duty and surtax, while the estimated cost of the entire loan is about 8·5 per cent. per annum. Of the proceeds of the loan, which are being devoted exclusively to productive purposes, 12,600,000 dollars is being used for reconstruction work of the National Economic Council, while 15 million dollars has been transferred to the Central Bank of China for currency reform. These various statements are interesting in view of the criticism that has been directed against Mr. T. V. Soong in connexion with this particular loan agreement.

10. The figures showing the position of the Central Bank for the years 1928, 1933 and 1934, are also noteworthy. It will be seen that as at the 31st December, 1934, the bank had notes in circulation to an amount of 86 million dollars odd, against which reserves in cash stood at 67 million dollars, and in securities at 18 million dollars. The report observes that, while the bank does not perform some of the important functions devolving upon central banks in many foreign countries, the progress achieved during the six years since its establishment gives ground for confidence that the time when it will perform these functions is not unduly remote. These remarks are significant in view of the Government's recent measures to obtain greater control of the three leading Chinese banks, with the idea, it is generally believed, of controlling all the silver stocks and eventually placing a monopoly of note-issue in the hands of the Central Bank.

11. As Dr. Kung puts it in the earlier paragraphs of the report, the " acute monetary situation now dominates the scene, and the Government is giving constant attention to means whereby it may be ameliorated." Further on, the section under " currency " (p. 15) gives a clear and dignified account of the events of the past two years and of the policy the Government was constrained to adopt in face of the United States Government's silver-purchasing policy. The present situation is summed up in these words :—

> " The silver drain has caused extreme contraction of currency and credit. During the latter half of 1934, interest charged by native banks to customers rose from the equivalent of around 6 per cent. per annum to 26 per cent. about the 1st January, 1935. Although lower rates have been nominally quoted since the financing of the Lunar New Year settlement (in February last), this did not represent real improvement, since it has been practically impossible to borrow at any rate regardless of security. The tightness of money has led to sales of foreign exchange for cash at a premium over forward delivery, which at times has worked out at nearly 30 per cent. per annum for one month's loan.
>
> " Notwithstanding the tendency to world-wide recovery, the silver difficulties have caused China's economic situation to continue to deteriorate in the last six months. Total foreign trade in the last half of 1934 was 13 per cent. below the first half, and 18 per cent. below the second half of 1933. Since July 1934, the value of Government and industrial securities and real estate has shrunk by 10 to 15 per cent. Business failures and unemployment are widespread."

12. Some interesting figures are given in the final section of the report under " The Budget " (p. 17), which concludes with an admirable programme of nine measures for dealing with the problem of economic reconstruction in China, which is " inextricably bound up with the problem of Government credit." In an article in the current issue of the *British Chamber of Commerce Journal* for this month, the chairman of the chamber, Mr. Calder-Marshall, points out that the budget for 1934–35 is made to balance by the inclusion on the revenues side of receipts from loans, 50 million dollars (item 14), and miscellaneous 83,265,534 dollars (item 15), the latter figure including proceeds from the American Wheat and Cotton Loan, and loans made by the British Boxer

Indemnity, 76,007,174 dollars. The loans from the indemnity were made to the organisations concerned, for the purchase of material or for construction work, and, therefore, while they are a liability of the organisations concerned and a contingent liability of the Ministry of Finance, and should thus possibly appear on both sides of the balance sheet, they can hardly be considered as receipts, unless the item on the expenditure side, Capital Fund for Business Enterprises (item 13), 50,318,716 dollars, is to be taken as a partial offset.

13. Subsequent to the issue of this report, the Minister of Finance is reported to have stated (in Kuomin News Agency reports from Nanking) that the budget for the 24th Fiscal Year, 1935–36, which was still being studied, could only be balanced if administrative expenses were reduced 20 per cent. He also stated that no new loans would be floated, as the economic distress would prevent the people from purchasing them, and that as regards the proposal for an international loan, although some countries were willing to make it, he was not in favour of it, and thought there was no absolute necessity for it. Later, it was reported that the budget for the year 1935–36 had been balanced at a figure of 957,184,006 dollars. It was stated in the press messages on the subject that, owing to the estimated decrease in the national revenues (particularly the customs revenues), owing to the general depression and the silver crisis, it had been found impossible to balance the budget without abolition or amalgamation of superfluous Government organs and the enforcement of a strict retrenchment policy, though no clear explanation was given as to how this policy would be carried out.

I have, &c.

A. H. GEORGE,

Acting Commercial Counsellor.

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Immediate.

P.Z. 6377 1935

187 India mail

Par by 10382 679.

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P.Z. 492/35

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 37 12SEP 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Foreign Office,

9 SEP 1935 , 193 .

The Under-Secretary of State,
India Office.

8—11131 (4)

[This Document is the Property of His Britannic Majesty's Government, and should be returned to the Foreign Office if not required for official use.]

P.Z. 5377 1935

From CHINA.

Decode. Sir A. Cadogan (Peking). 7th September, 1935.

D. (Via W/T.) 7th September, 1935.

R. 6.30 p.m., 7th September, 1935.

No. 851. (R).

::::::::::::::::

Following received from Shanghai No. 78 of September 5th.

Addressed to Peking No. 78; repeated to Hongkong; copied to Mission and Commercial Counsellor.

Shanghai branch of Bank of Canton closed its doors yesterday under instructions from the head office Hongkong. Though it is a British company it is a member of Chinese Banks Guild and pressure was (grp. undec.) by the latter to force local manager to ignore the orders of his head office. When these efforts failed the Guild approached the Ministry of Finance which has issued an order to the Guild to take over the assets and liquidate them for the benefit of creditors. The manager has been notified accordingly by the Guild but is replying with my approval that the Bank being British is subject to the jurisdiction of His Britannic Majesty's Supreme Court and that he cannot take any action except in accordance with English law. The case is complicated by the fact that British protection has been withdrawn from the Bank (see Foreign Office despatch No.211 to Peking of March 29th 1923).

2. I shall be grateful for early information as to steps to take in Hongkong to appoint liquidator or otherwise to deal with the local situation.

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P.Z. 6377

From CHINA.

Decode. Sir A. Cadogan (Peking). 7th September, 1935.

D. (Via W/T.) 7th September, 1935.

R. 6.30 p.m., 7th September, 1935.

No. 352. (R).

::::::::::::

Following received from Commercial Counsellor.

Addressed to Peking No. 186 of September 6th; repeated to Tokyo and by Saving to Mission and Hongkong.

Since I sent my telegram No. 184 there have been no important developments in local financial situation and I know of no reason to anticipate any before Sir F. Leith Ross comes. Minister of Finance remarked to me a few days ago that various matters were being held over pending his arrival, the date of which he enquired.

Closure of Bank of Canton reported in His Majesty's Consul General's telegram No. 78 is not likely to have any serious repercussion locally beyond adding to the general lack of confidence as business of Bank here was comparatively small and its position believed to be sound. A rumour which may have arisen out of reports of the situation in Hongkong was current here yesterday that Sir F. Leith Ross was going direct to Hongkong.

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P.Z.
6031
1935

CONFIDENTIAL

Immediate.

App 5821.
Ld. 11 26/8.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

Financial Sec
For information
Hoot 30/8

F.
5145
1935

ENCLOSURE IN WEEKLY LETTER
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE
No. 36 5 SEP 1935

Foreign Office,

28 Aug, 1935.

Sum. Thanks.
31
Lyttl Baxter 8

The Under-Secretary of State,
India Office.

8—11131 (4)

29 AUG 1935
INDIA OFFICE

Put by
Loose
10/17.

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P.Z. 6031 1935

From CHINA.

Decypher. Mr. Howe, (Peking), 27th August, 1935.

D. W/T. 27th August, 1935.

R. 7.10 p.m. 27th August, 1935.

No.821.

-o-o-o-o-o-o-o-

Following received from Commercial Counsellor.

Addressed to Peking No.184 of August 26th, repeated Saving to Mission, Tokyo and Hongkong by safe opportunity.

Soong told Henchman August 24th that at Kuling meeting he had explained at great length to Chiang Kai-shek the dangers of devaluation and objections to any measures of this kind pending the arrival of Sir F. Leith Ross. He appeared to be satisfied that his arguments had had the desired effect. He had also told Chiang Kai-shek about the recent operations of political group of speculators. He was more reticent as to the effect of his action in this direction, which is not surprising seeing that names of members of his own family are commonly quoted in this connexion, but it is elsewhere reliably reported that Chiang Kai-shek was very angry and spoke out strongly with the result that this particular group have been more or less inactive during the last few days.

Henchman is making start today for a holiday of 2 or 3 weeks.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

Financial Secretary

For information
L. of S 23/8

Seen. Thank you for it 24/8

F.
4955
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ENCLOSURE IN WEEKLY LETTER
NO. 35 29AUG1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Foreign Office,

2 Aug, 1935.

The Under-Secretary of State,
India Office.

RECD. POL. DEPT.
22AUG1935
INDIA OFFICE

8—11131 (4)

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5821
1935

From CHINA.

Decypher. Sir A. Cadogan, (Peking),
20th August, 1935.

D. W/T. 20th August, 1935.

R. 8.45 p.m. 20th August, 1935.

No.806.

-o-o-o-o-o-o-o-

Following received from Commercial Counsellor No.176, August 19th.

Begins -

Addressed to Peking No.176, repeated Saving to Mission, Tokyo and copy to Hongkong.

My telegram No.174.

Events of the past week appear to have helped to restore Soong's confidence in his ability to hold the financial situation for the time being. Main reasons are indications of possible modification of American silver purchasing policy and the fact that speculators here have now entirely covered their over bought position and are rather over sold. Much depends however on the outcome of the conference now being held at Kuling which both Soong and Kung are attending. It is rumoured in circles close to Soong's family that in the course of impending political reshuffle he may rejoin Government as Minister of Railways and possibly Minister of Communications as well, since it is felt something must be done to remedy the present unsatisfactory railway situation which is having an adverse effect on foreign, particularly British public opinion.

It is also reported amongst well informed Chinese that the United States Government have (? group omitted) Chinese

Government

Government they will not send a financial adviser to China as he would only have to listen to reproaches from Chinese and British against American silver policy. They have however suggested that there are other ways of helping China and that either Kung or Soong should go to America and consult the Secretary of the Treasury; if it is thought such visit to United States would be liable to misconstruction meeting might be arranged in Spain or some other country to which Secretary is supposed to be going on holiday. This proposal is said to have strengthened Kung's conviction that no real assistance is to be expected of Western Powers. I cannot confirm the above report but I have heard it from different sources.

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5821
1935

From CHINA.

Decypher. Sir A. Cadogan (Peking). 16th August, 1935.

D. By wireless 16th August, 1935.

R. 8.00 p.m. 16th August, 1935.

No. 787.

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Following received from Mission No. 183 August 14th, begins:

My telegram No. 181.

5706

Confidential.

Today's meeting was inconclusive. I hear privately and confidentially in Waichiaopu that Chiang Kai-shek will proceed in the near future to Kuling to discuss the situation there with Wang who is well enough to travel. It is desired to keep plan for meeting strictly confidential for the moment.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

REG. REGL. DEPT. 17 AUG 1935 INDIA OFFICE

Foreign Office,

16 AUG 1935

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The Under-Secretary of State,
India Office.

ENCLOSURE IN WEEKLY LETTER NO. 34 22 AUG 1935 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

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P.Z. 5691 1935

From CHINA.

De cypher. Sir A. Cadogan (Peking). August 13th 1935.

D. Wireless. August 13th 1935.

R. 9.00 p.m. August 13th 1935.

No.776.

^^^^^^^^^^^^^^^^^

Following received from Commercial Counsellor No.174 August 12th.

Begins:

Addressed to Peking No.174 August 12th, repeated to Hongkong Saving, Mission and Tokyo.

My telegram No.170.

T.L. Soong sent for Henchman this morning and again told him that situation was critical owing to pressure on Minister of Finance from local banks etc. In this connexion he mentioned particularly K.P. Chen managing director of the Shanghai Commercial and Savings Bank a very influential banker and an old friend of his and of Minister of Finance. It has been rumoured for some time past that this bank is in difficulties and that Chen has been pressing for settlement of some kind.

Exchange is however very firm today and many Chinese banks including bank above mentioned are selling.

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P.Z. 5691 1935

From CHINA.

Decypher. Sir A. Cadogan (Peking) 13th August 1935.

D. (Wireless) 13th August 1935.

R. 8.00 p.m. 13th August 1935.

No. 777.

- - -

Following received from Commercial Counsellor No. 175 August 12th (begins)

Addressed to Peking No. 175 August 12th.

Your telegram No. 143.

I saw Japanese Ambassador this morning. He does nor think that Chinese Minister of Finance is likely to introduce any immediate measures of devaluation or inflation or that he has any definite scheme of this nature in mind though he may take further indirect steps of an inflatory character such as issue of bonds.

He seemed to think that attitude of Japanese government towards appointment of Financial Adviser was still as stated in Tokyo telegram No. 152 to Foreign Office. He said that visit of Sir F. Leith Ross on his way through had been notified to Tokyo and that he would meet Vice Minister of Finance and other old friends amongst bankers and would learn views of Japanese government then.

As to question of financial assistance to China he was entirely non-committal but gave no indication that Japanese government were themselves prepared to make any immediate loan or that they were opposed to principle of international consultation. He remarked that there were however certain questions which would have to be "smoothed over" between China and Japan.

Repeated Saving to Mission and Tokyo, copied to Hongkong.

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P.O. 5691 1935

From JAPAN.

Decode and Decypher. Sir R. Clive. (Tokyo). 14th August,

D. 4.30.p.m. August 14th. 1935.

R. 10.55.a.m. August 14th. 1935.

No. 217.

---------oOo-------

"R" begins.

My telegram No. 209.

I spoke to Minister for Foreign Affairs today about visit of Sir F.Leith Ross and said I trusted His Excellency did not believe all the nonsense that had been telegraphed during the past fortnight to the press especially from London and Shanghai. I begged him to believe Sir F. Leith Ross was coming to study financial conditions in China with an open mind and that all reports as to what he was going to do were pure invention.

When in Japan I hoped to bring him to call on His Excellency and to arrange for him to see Vice Minister of Finance and Governor of Bank of Japan. I also proposed to apply for an audience in case His Majesty should have returned to Tokyo by September 10th.

"R" ends.

His Excellency was obviously relieved at what I said. He recollected having met Sir F. Leith Ross at The Hague in 1930 and would be happy to receive him. He alluded to uncertainty of political outlook in China and difficulty if Wang Ching-wei insisted on resigning. He only hoped that Sir F. Leith Ross would be able to regard the situation dispassionately and not be too much influenced by Soong and his faction. I was sure that Sir F. Leith Ross would not be biassed by political partisanship.

Addressed to Foreign Office No. 217; repeated to Peking Saving.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

Financial Sec

For information
H.O.S
15/8

F.
4818
1935

RECD. POL. DEPT.
15 AUG 1935
INDIA OFFICE

Seen, thanks.

15/8/35

Foreign Office,

, 193 .

The Under-Secretary of State,
India Office.

ENCLOSURE IN WEEKLY LETTER
NO. 34 22 AUG 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

8—11131 (4)

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5634
1935

From CHINA.

Decypher. Sir A. Cadogan (Peking). August 12th 1935.

D. Wireless. August 12th 1935.

R. 9.30 p.m. August 12th 1935.

No.773.

^^^^^^^^^^^^^^^^^^^

Following received from Commercial Counsellor No.173 August 10th.

Begins:

Addressed to Peking, repeated Saving to Mission and Tokyo, copy to Hongkong.

My telegram No.144.

I had a talk with Chang Chiao August 9th. He did not seem to think Minister of Finance would (? grp. omtd.) any immediate measures of devaluation or inflation, though apparently position of local banks and industries was now so frozen that they were naturally bringing great pressure to bear on Kung. The extremity of deflation had been reached and a similar situation in other countries would call for immediate action by the government. He thinks however that any such steps would only lead to complete collapse here. He still considers that action taken by Chinese Government last October was a mistake and had led to lack of confidence which had been increased by government's subsequent policy of interference with the constitution of the leading banks. He said Minister of Finance thought negotiation of an international loan would

would be very complicated and take a very long time, while the situation was getting steadily worse. He did not think Japanese were pressing Kung to devaluate or that they were ready to make a loan. They would only do the latter, if at all, after coming to terms with Chiang Kai-shek. In the meantime they would pursue their policy of economic development in the north (he mentioned cotton cultivation and railways) with or without Chinese co-operation while in the south they would concentrate on getting the settlement they wanted and would make things awkward for Chiang Kai-shek until they did so. He did not seem to think they would try to wreck things financially e.g. exportation of silver. Their action would be rather of a political nature. He thought they would not make any difficulties about Leith Ross's investigation but that they would put obstacles in the way of an international loan. Next 6 months would be full of difficulties. He seems to feel now that China must have a foreign loan but that negotiation of an international loan can only lead to all sorts of complications. He asked about the advisability of temporary advance. I told him His Majesty's Government's policy in general terms. He said Kung had been pressing Soong very hard to get this assistance and he was in a very tight place.

Chang now has an office in Shanghai bank of which he is deputy governor. Kung has asked him to organise new trust department in that bank.

Such information as I have from people in touch with Kung leads me to think that while Japanese may not

have

have advocated any scheme of devaluation or inflation they have at any rate tried to persuade him that there is no hope of an international loan and that he had better make his plans to deal with the situation without counting on it. The Secretary of the loan readjustment committee quoted Kung lately as saying that he had abandoned hope of obtaining an international loan while Secretary (? grp. omtd.) said that devaluation was inevitable.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
No. 33 15 AUG 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Foreign Office,

12 AUG 1935

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The Under-Secretary of State,
India Office.

8—11131 (4)

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F.O. 5579 1935

From CHINA.

Decypher. Sir A. Cadogan (Peking). August 9th 1935.

D. Wireless. August 9th 1935.

R. 8.50 p.m. August 9th 1935.

No.758.

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Following received from the Commercial Counsellor:-

Addressed to Peking No.169 of August 7th, repeated Saving to Mission.

Foreign Office telegram No.299.

Henchman told me yesterday (I had not heard this before) that the alleged offer of a Japanese loan was made to Chiang Kai-shek and that Soong had heard of it from his sister Madame Chiang Kai-shek.

Henchman himself does not seem to regard immediate prospect of a Japanese loan very seriously though he thinks they might find the money to lend to the Chinese on their own terms if situation got worse later. Nor does he appear to consider possible pressure from Japanese on Minister of Finance as an important factor. It is action by Chinese themselves that he fears most and particularly the influence of speculator group.

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In any further communication on this subject, please quote
No. F5763/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W.1.

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P.Z. 5496 1935

F. 4672 1935

THE Under-Secretary of State for Foreign Affairs presents his compliments to The Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

L&A.

Foreign Office,
9 Aug, 1935.

Pp 5440.

Reference to previous correspondence:
F.O. Letter
F. 5085/6/10
of 8 Aug 1935

Description of Enclosure.

Name and Date.	Subject.
HM Representative Peking Telegram No. 756 of 7 Aug 1935	Financial situation in China

MAILS 10 AUG 1935 INDIA OFFICE

E LETTER
33 15AUG 1935
POLITICAL AND SECRET DEPT. INDIA OFFICE

Similar letter sent to Co Treasury Bd of T. Sir F. Leith Ross

F.Z.
5496
1935

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NO DISTRIBUTION.

Decode. Sir A. Cadogan (Peking). August 7th 1935.

D. Wireless. August 7th 1935.

R. 9.00 p.m. August 7th 1935.

No.756. (R).

^^^^^^^^^^^^^^^^^

Following received from Commercial Counsellor:-

Addressed to Peking No.170 August 7th, repeated Saving to Mission.

My telegram No.165.

As a result of statement of Ministry of Finance exchange was firmer yesterday and I was told by Henchman privately that speculators covered their position by sale of sterling to extent of about £800,000 at a conservative estimate.

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In any further communication on this subject, please quote
No. F5085/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

5470
1935

CONFIDENTIAL

THE Under-Secretary of State for Foreign Affairs presents his compliments to The under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

P.P. 5419

Foreign Office,
8 Aug, 1935.

Reference to previous correspondence:

✓

Description of Enclosure.

Name and Date.	Subject.
HM Representative Peking Telegrams Nos 748 of 6 Aug. 749. 6 Aug.	Currency situation in China

RECD. POL. DEPT. 9 AUG 1935 INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER NO. 33 15 AUG 1935 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Similar letter sent to C.O. Treasury B.M.F.I. D.T.

14—6130 11686 (2)

F.O.
5470
1935

COPY.

(F 5083/6/10)

NO DISTRIBUTION.

Decode. Sir A. Cadogan (Peking). August 6th 1935.

D. Wireless. August 6th 1935.

R. 8.00 p.m. August 6th 1935.

No. 748. (R).

^^^^^^^^^^^^^^^^

Following received from Commercial Counsellor August 6th:-

Addressed to Peking No. 165, repeated to Mission saving.

Newspapers this morning publish Kuomin message of August 4th from Nanking saying that a spokesman of Ministry of Finance has declared rumours that adoption of a policy of currency inflation are groundless and that responsible authorities have not even considered the question.

Spokesman attributed rumours to erroneous reports that the government intend to introduce a system of nickel subsidiary coinage.

5470
1935

COPY.

(F 5085/6/10)

NO DISTRIBUTION.

Decypher. Sir A. Cadogan (Peking).
6th August, 1935.

D. (Via W/T.) 6th August, 1935.

R. 8.00 p.m., 6th August, 1935.

No. 749.

::::::::::::::::::

Following received from Commercial Counsellor.

Addressed to Peking No. 166 of August 4th; repeated to Mission Saving.

My immediately preceding telegram.

Henchman has been pressing Soong for some days to persuade Minister of Finance to issue a statement of this nature.

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Immediate.

Ref. 5412.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

RECD. POST ROOM
9 AUG 1935
INDIA OFFICE

Foreign Office,

8 AUG 1935, 193 .

The Under-Secretary of State,
India Office.

ENCLOSURE IN WEEKLY LETTER
NO. 33 15 AUG 1935
FROM POLITICAL AND
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No. Sc. 1 Jul 211

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5459
1935

From JAPAN.

Decode. Sir R. Clive, (Tokyo),
5th August, 1935.

D. 12.35 p.m. 5th August, 1935.

R. 9.30 a.m. 5th August, 1935.

No.211. (R).

-o-o-o-o-o-o-o-

My telegram No.188.

My French colleague tells me that he has informed Japanese Government of the appointment of French Financial Adviser to French Embassy in China. The latter would proceed to his post via Japan to make contact with Japanese financial authorities but would not be attached to French Embassy here.

Vice Minister for Foreign Affairs merely enquired whether he would maintain very close touch with his British colleague. French Counsellor replied that he did not know.

Addressed to Foreign Office, repeated Saving to Peking.

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5459
1935

From JAPAN.

Decypher. Sir R.Clive (Tokyo). 8th August, 1935.

D. 6.5 p.m. 8th August, 1935.

R. 12.50 p.m. 8th August, 1935.

No.213.

xxxxxxxxxxx

IMMEDIATE.

Your telegram No.156.

Vice Minister of Finance expressed opinion to Commercial Secretary that it would be useless to offer loan to China for currency reform because Chinese would never consent to the essential foreign control. He saw no practical remedy and doubted whether Leith Ross could do more than study the situation. He gave impression that appointment of French financial adviser was not welcome and that Japanese preferred that Chinese should get into greater difficulties (see my telegrams Nos. 213 and 232).

Commercial Secretary's impression confirms my own that Japanese are indifferent to China's financial difficulties, sceptical of financial assistance to China at all and definitely dislike the idea of international loan. They are far more interested in eventual economic development of North China under their own control.

With reference to paragraph four of Peking telegram No.718 of July 31st Vice Minister of Finance said that question of Japanese loan to China had not been considered and it would be "very difficult" for Japan to make loan.

See also my telegrams Nos. 83-106 and 115.

Addressed to Foreign Office telegram No.213, August 8th. Repeated to Peking.

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F.O.
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1935

NO DISTRIBUTION.

Decypher. Sir A. Cadogan (Peking). 29th July, 1935.

D. By wireless 29th July, 1935.

R. 10.00 p.m. 29th July, 1935.

No. 704.

.....

Following received from Mission July 26th:

Addressed to Peking No. 164, repeated to Commercial Counsellor.

Your telegram No. 317.

I delivered (?your views) to Kung yesterday evening. He made no particular comment but asked me to convey to you his appreciation of what you have done and of sympathetic attitude of His Majesty's Government.

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Parliamentary Debates 8/8.

Financial Secretary

for information.

H.A.F. Rumbold

7.viii.35.

F.
4621
1935

Seen: thank you.

J.H. Thomas

7.8.35

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

REGD. POL. DEPT.
7 AUG 1935
IN OFFICE

Foreign Office,

6 AUG , 193 .

The Under-Secretary of State,
India Office.

ENCLOSURE IN WEEKLY LETTER
NO. 32 8 AUG 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

8—11131 (4)

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5412
1935

From CHINA.

Decypher. Sir A. Cadogan (Peking),
2nd August, 1935.

D. W/T 2nd August, 1935.

R. 9.30 p.m. 2nd August, 1935.

No. 730.

Commercial Counsellor's telegram No. 155.

5321

You will have seen from my telegram No. 718 that I am apprehensive of possibility that Sir F. Leith Ross's mission may be prejudiced by financial collapse before he arrives and that I should therefore welcome grant of facilities that would enable Hongkong and Shanghai Bank to (grp. undec.) financial assistance sufficient to tide over the anxious period.

It seems to me that adoption of first of Grayburn's alternatives may eliminate objections seen by His Majesty's Government, force of which I quite realize. Unfortunately it does not seem very likely that this alternative could materialize.

Second alternative would presumably be open to objection as it would in practice encroach on available security as much as a loan direct to Chinese Government.

I can see that such encroachment would to some extent prejudice Leith Ross's investigation but this disadvantage has to be weighed against possibility of collapse which would have still more deleterious effect if not in fact render his mission abortive. It is all a question of probabilities in regard to which my personal lack of technical knowledge makes any estimate on my part valueless. I can only repeat that I am generally advised that there is great danger of collapse. Soong's last words to me when I saw him on July 12th were that even without a political incident to make matters worse the financial situation could not be held. Henchman would not go so far though he admitted existence of the danger. Third paragraph of Commercial Counsellor's telegram No. 155 seems to show that Henchman's anxiety has now increased.

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5412
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From CHINA.

Decypher. Sir A.Cadogan (Peking).
2nd August, 1935.

D. (By Wireless) 2nd August, 1935.

R. 9.30 p.m. 2nd August, 1935.

No.732.

XXXXXXXXXXXXX

Following received from Commercial Counsellor.

Addressed to Peking No.158 August 1st., repeated Saving to Mission.

My telegram No.155.

With reference to possible objection of Treasury that proposed temporary loan would be an encroachment on security for any permanent scheme which Leith Ross may recommend the following are the views of Grayburn and Henchman which they ask me to put before you.

2. The security offered by Ministry of Finance is 5 per cent of Customs Revenue Surtax and no other security is likely to be acceptable, but temporary loan could be merged into any permanent scheme. Soong states that sterling would be retained in London and used solely if needed as cover for issue of local currency which will be used for unfreezing the assets of Chinese banks. This will be done by the three semi-official banks and controlled by Soong. The opinion of Hongkong and Shanghai Bank is that if loan were sanctioned the mere psychological effect would be sufficient to prevent present attempts to undermine the stability of the currency as it would be regarded as an earnest of His Majesty's Government's interest in China which Chinese feel to be lacking at present.

3. Henchman informs me that if sanction were granted the Japanese banks here would immediately be invited to participate in making any advances.

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5412
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From CHINA.

Decypher. Sir A. Cadogan (Peking) 3rd August 1935.

D. (Wireless) 3rd August 1935.

R. 10.00 p.m. 3rd August 1935.

No. 739.

- - -

Following received from Commercial Counsellor:-

Addressed to Peking No. 161 of August 2nd.

My telegram No. 157.

As regards Soong's reference to customs revenue, I have ascertained confidentially the following facts. For first 6 months of this year revenues were up over (? 18) million dollars as compared with the two previous half-years, in spite of decrease in total value of foreign trade from 838 million dollars for first 6 months of last year to 804 million dollars for same period this year. This increase of revenue was entirely accounted for by increase in import duties which were only gold units 2,383,000 short of the record half-year July to December 1931. Large quantities of certain commodities such as sugar, artificial silk and chemicals were however imported in advance of market requirements through fear of tariff increases. It is therefore practically certain that revenue for the current half-year particularly for July and August will show a decline, and it was presumably to this fact that Soong alluded though such a contingency has for some time past been clearly foreseen. He did in fact add that there were special reasons for decline in July figures. Export duties for first half of this year show a decline as compared with the two previous half-years. Figures follow by first available safe opportunity.

Repeated Saving to Mission.

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5412
1935

From CHINA.

Decypher. Sir A. Cadogan (Peking),
3rd August, 1935.

D. W/T 3rd August, 1935.

R. 10.00 p.m. 3rd August, 1935.

No. 743.

Following received from the Commercial Counsellor.

Addressed to Peking No. 164 August 3rd Saving to Mission.

My telegram No. 157.

I hear on good authority that the three semi-government banks have each agreed to advance Chiang Kai-shek 10,000,000 dollars. This may have the effect of relaxing his pressure on the Minister of Finance.

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5412
1935

(F 4954/6/10.)

To CHINA.

Cypher telegram to Mr. Howe (Peking).

Foreign Office. 3rd August, 1935. 6.00 p.m.

No. 297.

::::::::::::

Your telegram No. 710 (of July 30th: Chinese financial situation).

We believe that any loan of kind proposed would be spent without doing any good and Young is perfectly correct in saying that we consider it would be a mistake to encroach on available security for that purpose. If the ultimate security for the loan now proposed is the same, the change of form does not remove our objections and we consider that decision must be deferred until Leith Ross arrives.

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5412
1935

(F 4954/6/10)

To CHINA.

Cypher telegram to Mr. Howe (Peking),

Foreign Office, 3rd August, 1935. 7.00 p.m.

No. 299.

Sir A. Cadogan's telegrams Nos. 706 and 707 (of July 29th: Chinese financial situation).

Soong's statement to Henchman and Grayburn's comments have been conveyed to me by Hongkong and Shanghai Bank: but no reference is made in their cable to Soong's apparent desire to avoid devaluation. Soong appears to ignore realities in speaking of the palliative loan proposed as a paltry indication of support by Western Powers. His Majesty's Government are not prepared to modify decision already conveyed to you as regards such a loan pending Sir F. Leith-Ross's arrival: and subject to his views thereafter, are not disposed to encourage any loan unless it is part of a considered programme intended to restore situation generally.

For your confidential information. This, in our view, might require devaluation under proper safeguards and would need widest possible support of interested Powers which could only be obtained if China accepted reasonable conditions both as to security and as to reforms. We cannot believe that Japanese are prepared to offer considerable loan single-handed for any purpose and we note that Kung is more apprehensive of their wrecking financial situation. We should be glad to have any evidence that they are seriously offering such a loan and if so, on what conditions.

Addressed to Peking No. 299, repeated to Tokyo No. 155.

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F.O.
5412
1935

(F 4954/6/10)

To CHINA.

Cypher telegram to Mr. Howe (Peking),

Foreign Office, 3rd August, 1935. 7.15 p.m.

No. 301.

My telegram No. 299 (of August 3rd: Chinese financial situation).

Can you say from contact with Japanese representatives or otherwise what Japanese view of the situation and possible intentions in regard to it are?

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5412
1935

(F 4934/6/10)

To JAPAN.

Cypher telegram to Sir R. Clive (Tokyo),

Foreign Office, 3rd August, 1935. 7.00 p.m.

No. 156.

My telegram No. 299, to Peking.

Please report anything that can be ascertained regarding Japanese view of the situation and intentions.

Addressed to Tokyo No. 156, repeated to Peking No. 300.

No

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 32 8 AUG 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

REGD. POL. DEPT.
6 AUG 1935
INDIA OFFICE

Foreign Office,

, 193 .

The Under-Secretary of State,
India Office.

8—11131 (4)

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F.E. 5334 1935

From CHINA.

Decypher. Sir A. Cadogan, (Peking.) 29th July 1935.

D. (By Wireless.) 29th July 1935.

R. 7.00 p.m. 29th July 1935.

No. 706.

0:0:0:0:0:0:0:0:0:0

IMMEDIATE.

Following received from Commercial Counsellor.

Addressed to Peking telegram No. 151 of July 27th; repeated Saving to Mission.

Your telegram No. 127.

I spoke accordingly to Soong Henchman and Kung on July 26th.

Soong, who appeared extremely depressed, made absolutely no comment beyond asking me to repeat message and to thank you. My efforts to obtain his reactions produced no result whatever. Henchman expected answer and was not surprised by it. Finally I saw Minister of Finance who told me, when I expressed hope that situation could be held, that he was being driven on all sides to do something about it. When I mentioned Japanese intentions he said he thought they might even be prepared to create financial chaos in China and damage their own trade with this country in order to secure their political aims. The apparent vagueness of their officials was only a smoke screen; they knew very well what they wanted. He referred to danger of approaching autumn festival of [? Shamsi] though this is not until September 12th. He asked if Sir F. Leith-Ross' arrival could not be expedited, if for instance he could come by air. I said I thought his arrangements were now completed and that it would be difficult to alter them but that I would pass on message. Throughout conversation I emphasized how difficult

it ....

it was for His Majesty's Government to agree to any action that would prejudge the situation pending Sir F. Leith Ross' arrival in a few weeks' time and that their inability to agree to proposed palliative did not mean that their interest in problem had in any way diminished.

2. Soong sent for Henchman not long after I had left him and told the latter that the situation was now critical and that opposition to himself was almost unanimous including Chiang Kai - shek who had expressed doubts about the possibility of obtaining any financial assistance from Great Britain. He had relied on getting temporary loan to refute this idea. He thought His Majesty's Government must have informed other Powers about recent Chinese requests for a temporary loan as a high official in Japan had now definitely offered a loan for the purpose of stabilising Chinese currency. The acceptance of such a loan would mean Japanese domination over China. He expressed bitter regret that his failure to obtain a paltry loan of five million pounds should bring this about. With such indication of support of Western Nations he could have held out for a few months longer. As it was the failure to obtain this sum would make it impossible for him to turn the trick against pro Japanese and pro devaluation parties who were working against him. Soong expressed great anxiety over Henchman's intention to leave for Japan for a much needed holiday on July 28th. (it seems very likely that the latter will not go now though he did not say so to Soong). He referred to Henchman as his only friend and apologised for the possibility that he might be compelled to "let him down" in his absence.

3. Soong ...

3. Soong authorised Henchman to convey the gist of above conversation to me. From a remark he made to the latter it seems that his recent habit of passing messages to me through third parties when he can see me himself at any moment arises from an idea that any information on this subject transmitted to you or His Majesty's Government through me is automatically communicated to other consortium Powers.

4. It again seems possible that Minister of Finance may take drastic action of some kind or other at any moment. There is little doubt that a large number of influential Chinese who are opposed to Soong are pressing Kung hard to devaluate and that this policy is now being widely and publicly advocated. Also there is a lot of speculation in exchange by people who are interested in its adoption. Chiang Kai-shek is alleged to have told that Minister of Finance that he will give such measure his blessing if it will enable the latter to furnish him more readily with the funds he requires.

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F.E. 5334 1935

From CHINA.

Decypher. Sir A. Cadogan (Peking).
1st August, 1935.

D. (Via W/T.) 1st August, 1935.

R. 9.15 p.m., 1st August, 1935.

No. 725.

::::::::::::::

IMMEDIATE.

Following received from Commercial Counsellor.

Addressed to Peking No. 157 of July 31st; repeated Saving to Mission.

My telegram No. 155.

I saw Soong again on July 30th. I told him I had heard substance of his conversation with Henchman of July 26th and had reported it to you. I asked if he could give me clearer picture of the present situation. He said that it was as Monnet had described it to you in his memorandum; industries stagnant, banks with frozen assets, flood disasters, Government banks rescuing other banks, Customs revenue down during this month and Government finances strained. He had begged you to come and judge for yourself and had suggested temporary loan to tide over situation until Sir F. Leith Ross had had time to study the position but even this had been refused. For months he had been holding on in the hope of a loan from us. Now he was told that His Majesty's Government could not pre-judge what was already a desperate situation. Things had been getting steadily worse for so long that Chinese no longer had any faith in our assistance of which this small loan would have been an earnest. It seemed now that we had no intention of protecting our interests even in the Yangtse Valley, would

not ...

not stand up to Japanese or do anything without consulting them. He was being laughed at for his previous optimism and told that Great Britain would be of no more help than the League of Nations had been and that there was as much hope of getting a loan from us as of dragging reflection of the moon from a pool (I have good reason to believe this was the phrase used in a telegram from Chiang Kai-shek to Kung. I pointed out that His Majesty's Government had given very real proof of their sympathetic interest in China's problems in sending Sir F. Leith Ross who was to start for China in a few days and that it seemed to me a curious moment to complain that we were not interested. He reminded me that he had told me on February 1st that Sir F. Leith Ross would be too late. He himself understood the British, that they were slow but reliable, but his people did not. His was now a voice crying in the wilderness. He stood alone.

2. I asked him about Japanese intentions. He spoke in much the same strain as he had done to you. He referred to withdrawals of silver from the banks at Peking and Tientsin and recently Tsinanfu. These had ceased but they were a reminder of what the Japanese could do to make trouble. He alluded to what Yoshida had said to Henchman. Diplomatists and commercial men might hesitate to create financial chaos which might temporarily involve their own interests to gain political ends but military party were more far sighted. They thought that it would be cheaper than military action. Reckoned in dollars he did not think Manchurian adventure had been an asset but it had brought much honour and glory to Japanese lords.

He ...

He himself favoured a detente between China and Japan but not if it involved a sacrifice of China's sovereign rights. He did not mention any offer of a Japanese loan.

3. I asked what measures of devaluation or inflation Minister of Finance contemplated. He became reticent and said he was not the Minister of Finance and could not divulge the latter's intentions. He remarked that inflation was now taking place without any actual measures of inflation. I asked whether it was true that speculators were exerting a powerful influence in direction of devaluation. He hedged in his reply.

4. The whole tone of his remarks was one of hopelessness and soreness in defeat.

5. It seems generally agreed here that it is only a matter of time before measures of inflation are adopted. These may take the form of declaration of a moratorium in favour of Chinese banks, complete embargo on export of silver, nationalisation of silver stocks, monopoly of note-issue by Central Bank, and finally devaluation of the dollar. Pressure is being brought to bear in favour of such policy by local interests suffering under present stringency, by the Japanese, by Chiang Kai-shek, and by speculators. The present flight from the dollar is no doubt inspired to some extent by genuine fear for the future, but there is reason to think that much of it is pure speculation by banks and individuals with official backing who are counting upon action by Minister of Finance to give them their profits and who are operating in opposition to the policy of semi-government banks which are, and have for some time past been, supporting the

market ...

market and are considerably over-sold. Henchman who believes that this speculation is being encouraged in high places intends to ask Kung, who has consulted him in the past as to how speculation generally can be stopped, why such action should be countenanced seeing that it is directly opposed to policy which he has been asked by Chinese Government and has made great sacrifices to support. The Japanese are driving Kung towards devaluation presumably because they feel, as Soong says, that financial chaos will give them opportunity eventually for extracting concessions from China, and that it would be foolish to wait till we have had time to examine the situation and have given assistance which will possibly increase our interests in trade, customs, railways, and other spheres in this country. Their vested interests in China are possibly less vulnerable than ours and those of the Chinese themselves. Chiang Kai-shek, who understands little about currency problems and only cares about the provision of funds, may have genuinely come to believe that no assistance is to be expected from us and that the longer China waits before coming to terms with Japan the harsher the terms will be. I feel that Minister of Finance is more stolid, even if less able and possibly less honest, than Soong, but it is doubtful whether he can resist much longer embarking upon a policy of which the consequences for British interests in China (? will be) direct and instantaneous. He has gone to Nanking for a few days as usual in the middle of the summer but will probably be back on August 2nd.

6. In view of the foregoing I venture to suggest proposals now being put forward by Hongkong and Shanghai Bank, the objections to which I fully appreciate, are still worthy of very serious consideration.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

POL. DEPT. 3 AUG 1935 INDIA OFFICE

Foreign Office,

- 2 AUG , 193 .

The Under-Secretary of State,
India Office.

ENCLOSURE IN WEEKLY LETTER NO. 32 8 AUG 1935 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

8—11131 (4)

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F.E. 5321 1935

From CHINA.

Decypher. Sir A.Cadogan (Peking). 31st July, 1935.

D. (By Wireless) 31st July, 1935.

R. 7.30 p.m. 31st July, 1935.

No.718.

XXXXXXXXXXXXXX

Soong

Commercial Counsellor's telegrams Nos. 151 and 154.

Reactions of Kung and Soong are much what I expected as they have been trying to make my flesh creep for some time.

2. My difficulty is to know whether their fears are genuine or whether they are trying to scare us into facilitating temporary financial assistance to afford them some immediate political or financial advantage.

3. I assume financial crash before Sir F.Leith Ross's arrival would be greatly to be deplored and question therefore is whether situation can be held for so long. I find it very difficult to express opinion on such a question which involves considerations of a most intricate technical character where data are perhaps not wholly reliable.

4. That is one aspect of the matter. From political point of view there is now allegation by Kung that he has been offered loan from Japanese quarter.

5. I quite understand His Majesty's Government's reluctance to prejudge the position before Leith Ross's arrival but it seemed to me that they, having taken important decision to send him to China, would wish to do everything possible to avoid prejudicing the mission.

Moreover ...

Moreover any tangible proof of His Majesty's Government's desire to assist China would I believe have a political value.

6. I should not have recommended any positive action by His Majesty's Government on their own account but the proposed palliative loan would as I understand it have taken the form of action by the Banks and the only thing necessary for its realisation would have been previous knowledge by British banks that their action would not have disapproval of the Treasury.

7. Though they may be exaggerated the fears of Kung and Soong that the situation may collapse cannot be groundless. There is obviously the risk of it; Hencham told me the danger was there, though he would not like to commit himself as to its imminence.

8. Consequently I thought we might be taking serious risk in letting the situation slide which might result either in financial collapse or in Japanese financial and economic domination. I therefore endorse Grayburn's views as reported in Commercial Counsellor's telegram No.154.

Addressed to Foreign Office No.718, repeated to Commercial Counsellor and Saving to Tokyo and Mission.

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UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 32 8 AUG 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

RECD. POL. DEPT.
1 AUG 1935
INDIA OFFICE

Foreign Office,

31 JUL 1935, 193 .

The Under-Secretary of State,
India Office.

8—11131 (4)

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F.O.
5249
1935

From CHINA.

Decypher. Sir A. Cadogan, (Peking),
30th July, 1935.

D. W/T. 30th July, 1935.

R. 7.30 p.m. 30th July, 1935.

No.710.

-o-o-o-o-o-o-o-

IMMEDIATE.

Following received from Commercial Counsellor.

Addressed to Peking No.155, July 29th, repeated Saving to Mission.

5225.

My telegram No.154.

Henchman telegraphed to Grayburn on July 27th suggesting that bank's action in asking for formal sanction for proposed temporary loan has possibly been embarrassing to His Majesty's Government and that it might be no part of the functions of the Treasury to oppose a purely private interbank loan. He therefore put forward proposal that such assistance might take the form of a loan to the three Chinese semi-government banks against their promissory note guaranteed by Minister of Finance under sanction of executive Yuan and that you and His Majesty's Government (through bank's London office) should merely be informed of this intention stressing at the same time the urgent need for such action as indicated by his conversation with Soong reported in my telegram No.151. Henchman suggested that Grayburn should consult Young, Treasury representative in Hongkong, as to possible reaction of Treasury to this proposal.

2. Grayburn has now replied saying that Young thinks Treasury's primary objection to palliative loan was on ground of encroachment on security available for any permanent solution that Leith-Ross might recommend such as customs revenue

and

and that Treasury do not normally intervene where assistance of this nature takes the form of interbank facilities. There appear to Grayburn to be two alternatives either that semi-government banks should assess offer of satisfactory security (he doubts whether this is possible but agrees that if they can, formal consent of His Majesty's Government would not be required but only that latter should be informed beforehand of bank's intention) or if satisfactory security must for example include customs revenue, that bank should enquire whether His Majesty's Government after considering Henchman's wire to London office of July 27th, (reporting conversation with Soong and Grayburn's reaction repeated to you in my telegram No.154) will withdraw their objection to encroachment on such security up to 5 million pounds. Grayburn concludes by saying that Foreign Office will require your views on these alternatives and he would prefer that Henchman should act through His Majesty's Government.

3. Henchman considers situation over the end of the month so desperate that he informed Soong on July 27th that he was putting forward further suggestion mentioned in first paragraph of this telegram in endeavour to support him against his opponents. Soong expressed deepest appreciation of this language and is now considering question of security. Henchman asks me to tell you that pressure on Soong is now so great that if anything is to be done he would greatly appreciate an early decision. There is renewed indication this morning in speculative purchases of commodities and foreign currencies of a flight from the dollar.

P. 2. 5225/35.

F.
4534
1935

Financial Secretary

for information.

1.VIII.35.

Seen with thanks.

2.8.35

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UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

RECD. POL. DEPT.
31 JUL 1935
INDIA OFFICE

Foreign Office,

, 193 .

30 JUL 1935

The Under-Secretary of State,
India Office.

ENCLOSURE IN WEEKLY LETTER
NO. 31 1 AUG 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

8—11131 (4)

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5225

From CHINA.

Decypher. Sir A. Cadogan (Peking). 29th July, 1935.

D. By wireless 29th July, 1935.

R. 9.00 p.m. 29th July, 1935.

No. 707.

.....

IMMEDIATE.

Following received from Commercial Counsellor:

Addressed to Peking telegram 154 of July 28th, repeated to Mission telegram 76 Saving.

My telegram 151.

In reply to telegram from Henchman reporting his conversation with Soong Grayburn has replied that in his opinion question is now more diplomatic than financial while he appreciates attitude of the Treasury as to necessity for permanent solution of currency problem and would in other circumstances agree that further discussion should await arrival of financial expert, he thinks that in view of Japanese offer and opposition to Soong there is a real danger that the whole position may have changed before Sir F. Leith Ross arrives and the latter may be confronted with a fait accompli. He thinks, even if loan is only palliative to gain time, it is preferable to loan from Japanese on conditions which would inevitably prejudice the whole future of British trading and financial interests in this country. He asks that these opinions should be put before you for communication to Foreign Office.

2. As a result of conversation with Soong, Henchman feels there is not merely danger but that it is inevitable that

measures

measures will be taken in the immediate future which will lead to crash of currency unless something can be done to (grp. undec.) Soong's hand. It is very difficult to say exactly what plans of devaluation or inflation Minister of Finance may have in mind but the market has been full of rumours for the last few days that some measure such as reduction of silver backing of note issue from 60% to 40% will be decided over this week-end. There has been much speculation in gold bars by powerful groups of banks and individuals (principally the joint treasurer of the four banks) who are said to be over bought to the extent of two million pounds and are bent on introduction of some note which will cause immediate heavy fall in the exchange. Pressure by this group on Minister of Finance has to be added to that of numerous local interests who consider they would benefit by devaluation or inflation. Soong is said to have threatened Kung that if he takes action merely on the strength of messages from Chiang-Kai-shek and without waiting for the latter to come down from Szechuen and give proper consideration to any currency scheme, he does it at his own peril. The fact that Chinese Government had failed to obtain temporary loan of £5,000,000 apparently became known to him immediately after my conversation with Minister of Finance and exchange was weaker yesterday. Henchman has postponed his departure for Japan indefinitely.

3. Conversation with leading Chinese bankers yesterday makes me doubt whether any such action as described above will be taken over this week-end but undoubtedly great pressure is being brought to bear on Minister of Finance. Fears of Japanese action during the next few weeks to tighten her political and economic control over this country, though vague appear to be now generally entertained by responsible Chinese.

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WITH THE COMPLIMENTS

OF THE

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ENCLOSURE IN WEEKLY LETTER
NO. 30 25 JUL 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

Foreign Office,

18 JUL 1935, 193 .

The Under-Secretary of State,
India Office.

REGISTRY DEPT.
19 JUL 1935
INDIA OFFICE

8—11131 (4)

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From CHINA.

Decypher. Sir A. Cadogan (Peking),
17th July, 1935.

D. W/T 17th July, 1935.

R. 8.00 p.m. 17th July, 1935.

No. 677.

Following received from Commercial Counsellor.

Addressed to Peking No. 144, July 15th, repeated to Mission (Saving).

Your telegram No. 55 Tour to the Foreign Office.

In a conversation with editor of North China Daily News (?Chiung Ku-chiaao) former managing director of Bank of China said that Japanese military representatives here were convinced that visit of Sir F. Leith Ross implied intention of His Majesty's Government to make large loan to China and that to prevent this they would take further action to show instability of political conditions here and futility of making any financial contract with China without Japanese participation. He also said they were determined to make Chiang Kai-shek come out of his isolation and carry out the policy they desired.

In making these remarks Chang expressed a wish that they might be conveyed to you, apparently in the hope that you would give some indication in reply as to whether it was really His Majesty's Government's intention to make loan, whether loan depended upon Sir F. Leith Ross' report, and whether Japanese participation would be essential. He however seems to hold the view that China should not depend too much upon a loan, particularly without Japanese acquiescence, and should use her own resources to get out of her present difficulties. He told Ward..... she could do better without devaluation, though I was recently told that he now favours devaluation.

According

According to Ha....., Chang's remarks sounded more like expression of a fear than of a threat, but it looks as if he may have been merely seeking information in a roundabout way. Though he may not be actually pro-Japanese, he has close connexions with Japanese and can hardly be well disposed towards Soong since he had to resign from direction of Bank of China.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 29 18 JUL 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

16 JUL 1935
INDIA OFFICE

Foreign Office,

15 JUL 1935 , 193 .

The Under-Secretary of State,
India Office.

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P.Z. 4870 1935

From CHINA.

Decypher. Sir A. Cadogan (Shanghai), 12th July, 1935.

D. W/T 13th July, 1935.

R. 7.00 p.m. 13th July, 1935.

No. 55 TOUR.

Acting Commercial Counsellor's (? telegram No. 140) to Peking.

I arrived at Shanghai on evening of July 10th and following morning had interview with Soong.

He spoke very much in the sense reported by Monnet in telegram referred to above. He said Japanese had had such an easy success in the north that they were speeding up their own plans in other parts of China. They were selling arms to (? Kuangsi) and trying to incite Kwangtung against Nanking Government. In particular they were aiming at Chiang Kai-shek. They wished to get him to come down and take a hand in negotiations either so as to get him in their pocket or to discredit and get rid of him. He does them no good (? at present) reorganizing China out of their reach.

Soong said that there was a powerful party in China - he mentioned Wang Ching-wei and Governors of Hupei, Kiangsu, Chekiang and Fukien - who were arguing that the only thing to do was to come to terms with Japan: that resistance had been tried and had failed, that concessions had only led to fresh demands, therefore the thing to do was to capitulate and accept Japanese cooperation on such terms as could be got.

He said that in his opinion Japan would work to render Sir F. Leith Ross' mission abortive before his arrival either by producing a financial smash or by obtaining financial and economic control over China. The former the Japanese could

probably

probably do by exporting silver, arranging a run on one of the banks or by creating an incident which would be sufficient in delicate situation to produce a scare. The latter they might do by offering financial assistance or cooperation in a form which would make it difficult to resist any longer clamour of pro-Japanese party.

He is therefore very anxious that some assistance should be available shortly from other sources (though he would not exclude Japanese participation if that were desired) which would hold the financial situation until permanent remedies can be examined. He thinks (? other, ? reliable, ? British) assistance would have also a vast effect as many of the "pro-Japanese" have been driven to adopt that line from despair of getting assistance from elsewhere. He also thinks that it would be a warning to Japan that others were taking an interest in China and this might act as some restraint upon her.

Scheme he has in mind is that outlined in my telegram 651.

I subsequently saw Mr. Henchman who told me that in his opinion there was no doubt a danger that situation could not be held until Sir Leith Ross arrives though he could not commit himself as to chances of a break occurring. He favours plan referred to above. A loan of five million pounds would enable the Chinese Government to issue one hundred million dollars in notes and he thinks such loan would be sufficient to make it very diffioult for Japanese to produce a financial collapse.

I find it difficult to comment on foregoing. Soong is of course notoriously anti-Japanese, moreover all that he told me was mere surmise: at least in reply to my direct question whether Japanese had made any definite offers or threats he replied in the negative. But I suppose it is a fact that Japan's policy is to expand present control over China to

exclusion

exclusion ultimately of every other country's influence including our own. Though possibly Japan might be ready at present to cooperate with us she has shown her distaste for international action and that is what she suspects we may propose. It is therefore quite possible that she may take some action to counter any measures which may be proposed as a result of Sir F. Leith Ross's mission.

In all their recent troubles we have been unable to do much more than extend our sympathy to the Chinese who are certainly looking to us for something more positive. I believe it would encourage the better elements here and lessen the influences of pro-Japanese party if His Majesty's Government could give some positive proof of their desire to assist and if they could give it now. What, I understand, would be required of them to enable the scheme for a palliative loan to be given effect to would be an indication that they would not object to British banks arranging a loan here to Chinese Government of about five million pounds. The scheme if it actually matures would appear in the form of a proposal by bank, who would invite other banks including Japanese, to associate themselves in the undertaking. But Hongkong and Shanghai Bank will not go ahead with the matter unless they know that in the event His Majesty's Government would not object. Would it not be possible for His Majesty's Government to give this indication beforehand which I could convey to the bank?

Of course this would be only a temporary measure of relief and not a radical cure of situation, and it might be contested that it is useless to put more money into China if this country is to be gradually swallowed by Japan and our interests successively eliminated. But it seems to me that if we decide

to

to do our best to assist China to maintain herself, and ultimately to obtain a reasonable degree of prosperity and to retain for ourselves access to her markets and to preserve our already existing interests here, it may be too late unless we make a start now.

Addressed to Foreign Office No. 55 Tour of July 12th, copies to Peking, Mission and Commercial Counsellor.

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In any further communication on this subject, please quote
No. F 4263/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

THE Under-Secretary of State for Foreign Affairs presents his compliments to The Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Foreign Office,
10 July 1935.

pp 4636.

Reference to previous correspondence:

✓

Description of Enclosure.

Name and Date.	Subject.
HM Representative Peking Telegram No. 643 of 2 July 1935	Financial situation in China: Japanese attitude

ENCLOSURE IN WEEKLY LETTER
No. 29 18 JUL 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

POL. SEC. DEPT. 18 JUL 1935 INDIA OFFICE

Similar letter sent to Treasury D.O.T. Board of T. C.O.

14—6130 10950 (2)

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4761
1935

From CHINA.

Decypher. Sir A. Cadogan, (Peking),
2nd July, 1935.

D. W/T. 2nd July, 1935.

R. 9.30 a.m. 3rd July, 1935.

No.643.

-o-o-o-o-o-o-o-o-o-

Following received from Commercial Counsellor No.138 of July 1st.

Begins -

Addressed to Peking; repeated Saving to Mission.

Yoshida, leading Japanese banker here, went to see Henchman a few days ago and in the course of conversation uttered what can only be described as a series of veiled threats against China. He said Japanese were dissatisfied with present attitude of Chinese towards Japan (he mentioned activities of Blue Shirts) and would certainly give her no financial assistance until she mended her ways. He said military party in Japan were now thinking it might be cheaper to allow China to lapse into financial chaos than to take military action and that they were thinking of turning out present government in China though he offered no suggestion as to what government could take its place. He did not see why Japanese banks should continue to observe gentlemen's agreement regarding shipment of silver seeing that it only benefited Chinese and suggested that Minister of Finance ought to be asked to give definite guarantee that there will be no devaluation of the dollar. He enquired as to progress of loan proposals and referred to report, which Henchman denied, that Hongkong and Shanghai Bank had lent the Council of Ministers £1,000,000. He did not think Japanese Government would appoint an expert when British expert arrived as they knew all about the financial situation in this country.

Henchman is afraid Japanese banks may ship silver in the near future as there are various signs that this is their intention.

copy for China financial Situation file

ENCLOSURE IN FOREIGN OFFICE
[This Document is the Property of His Britannic Majesty's Government, and should be returned to the Foreign Office if not required for official use.]

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4752
1935

From JAPAN.

Decode. Sir R. Clive. (Tokyo).
July 10th. 1935.

D. 3.20.p.m. July 10th. 1935.

R. 10.55.a.m. July 10th. 1935.

pp. 46367 F.R. 9/7

F.2.492/35

No. 173. (R).

-------oOo-------

Before moving to Chuzenji July 10th I called on Vice Minister for Foreign Affairs and asked about the situation in China with special reference to the following points:-

(1) Lèse Majesté case.

(2) Army and Chiang Kai-shek (see my telegram 165).

(3) Reported blockade of North China provinces.

(4) Financial situation.

Regarding (1) he said that the matter was settled and guarantees given that similar insulting articles would not appear. He denied that the Japanese had demanded dissolution of Kuomintang organization in Shanghai but added that article had been widely distributed under the auspices of the Kuomintang.

Regarding (2) he denied that Japanese Government desired to eliminate Chiang Kai-shek but they were disappointed that his attitude was not more friendly to Japan. I asksd if evidence existed that he had inspired anti-Japanese attitude in North China as the military alleged. He would not confirm this but said that Chiang Kai-shek had so many organizations and societies under him that he could not control them all. He admitted the military had shown too much zeal but said that Japanese policy was united in desire to eliminate anti-Japanese officials.

Regarding (3) he denied that there was any intention

of.....

of forming a blockade of North China provinces with Manchukuo and Japan and reports to that effect were untrue.

Regarding (4) he agreed that financial situation in Shanghai was desperate but said that all their information was that outside Shanghai things were not so bad. Japanese Government had carefully considered the appointment of Financial Counsellor to their Embassy but had no one with the requisite qualifications of language (English) and financial knowledge. He referred to appointment of Sir F. Leith Ross and I said the latter had exchanged friendly telegrams with Vice Minister of Finance and may be in Japan for a day or two in September on his way to China.

He said that he hoped Sir F. Leith Ross would see Vice Minister of Finance.

Addressed to Foreign Office No. 173 of July 10th; repeated to Peking.

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pp 4435.

T1. R 29/6

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 28 11 JUL 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

Foreign Office,
6 JUL 1935
, 193 .

The Under-Secretary of State,
India Office.

8—11131 (4)

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F.O.
4636
1935

From JAPAN.

Decypher. Sir R. Clive (Tokyo) 5th July 1935.

D. 8.00 p.m. 5th July 1935.

R. 4.30 p.m. 5th July 1935.

No. 165.

- - -

China situation.

Views of Japanese banker reported in Shanghai Commercial Counsellor's telegram of July 1st reflect I fear views of Japanese military. General Araki told me last week that the army had no faith in Chiang Kai-shek and spoke with obvious approval of separatist tendency of North China and increasing dissatisfaction of Canton. My Chinese colleague told me object of General Doihara's recent mission to South China had been to stir up feeling against Chiang Kai-shek.

I am convinced it is useless now to expect any co-operation from the Japanese side for international financial assistance to China. Present American indifference suits Japanese attitude.

4031. Two days after I sent my telegram No. 152 of June 8th Japanese press announced that Japan would take no part in any financial conference about China.

If

If His Majesty's Government decide that financial assistance to China is essential in the interests of British trade there would be as seen from here appear to be only two alternatives.

1. British assistance with or without the French.

2. Joint British-Japanese assistance.

Japanese have repeatedly both to myself and to members of the staff spoken of Japan and Great Britain working together economically in China. As things are today Japan can probably stultify any financial arrangements by other Powers of which they do not approve while the military authorities in their hostility to Chiang Kai-shek may contemplate with equanimity complete financial chaos as an excuse for another forward movement.

I foresee obvious criticism that the second alternative would entail disruption of policy of international co-operation in China but days of effective co-operation appear to be over and I submit for consideration that it might be definitely in China's interest if His Majesty's Government could induce Japan to join them in endeavouring to straighten out financial and economic chaos in China.

Admittedly Japanese participation would involve measure of control but alternative appears to be Japanese opposition.

Addressed to Foreign Office No.165 July 5th, repeated to Peking.

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In any further communication on this subject, please quote
No. F 3910/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W.1.

CONFIDENTIAL

4435

THE Under-Secretary of State for Foreign Affairs presents his compliments to The Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the undermentioned paper.

Foreign Office,
27 June, 1935.

pp Hills.

P.P.S. M.R.

Reference to previous correspondence:

✓

Description of Enclosure.

Name and Date.	Subject.
H.M. Representative Peking Despatch No. 621 of 23 April 1935	Chinese currency situation and financial crisis

REC'D 28 JUN 1935 INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER No. 27 - 4 JUL 1935 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Similar letter sent to CO DO Treasury Bd of T DO I

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4435
1935

Copy

No.621 (159/36/1935)

(F 3910/6/10)

CONFIDENTIAL BAG.

His Majesty's Minister, Peking, presents his compliments to His Majesty's Principal Secretary of State for Foreign Affairs, and transmits herewith three copies of the undermentioned paper.

Peking.

23rd April, 1935.

-0-0-0-0-0-0-

Reference to previous despatch:

Telegrams to Foreign Office No.338 and 339 of 18th April, 1935.

3895.

Description of Enclosure.

Name and Date.	Subject.
Record of interview with Monsieur Monnet 17th April, 1935.	Chinese currency situation and financial crisis.

Copied to:- Sub-Legation,
Commercial Counsellor,
Tokyo.

THE CURRENCY SITUATION AND THE FINANCIAL CRISIS.

INTERVIEW.

His Majesty's Minister and Monsieur Monnet

at the British Legation

17th April, 1935.

(The Commercial Secretary present)

Monsieur Monnet explained that, after a few months in Paris during the summer of 1934, he had spent a month off and on in London in the Autumn assisting Sir F. Maze in his negotiations for a large loan, and in discussions with the Hong Kong and Shanghai Bank of the subsequent proposals for a much smaller loan to relieve the immediate currency situation. In December he had gone to New York and, at the request of the Chinese Government, had spent three months in America as financial adviser to the Chinese Minister in his discussions with the American authorities. On his return to China, in connexion with the affairs of the Finance Development Corporation, he had almost immediately realised that before all else the financial crisis required consideration, and he had, moreover, been consulted by H.H. Kung and T.V. Soong. They had taken him into their fullest confidence, and he had seen all the correspondence relating to the present proposals for international assistance. He had come as soon as possible to Peking to see His Majesty's Minister, partly at their request, and partly because he had received a telegram from Mr. David Drummond in London stating that Sir R. Vansittart had suggested he should do so.

H.H. Kung and T.V. Soong, while they showed a tendency to

/vacillate,

vacillate, appeared to realise that major measures of currency reform, involving the abandonment of the silver standard, were inevitable and that the only practicable policy was to follow the line of the discussions initiated by His Majesty's Government, viz; that any financial assistance given to China must be international in character. They had been told that if they would put forward concrete proposals these would be considered. They were faced with two difficulties: first, they were being subjected to constant pressure by the Japanese to eschew international assistance, (though no concrete alternative offer of help had been made by the Japanese), and they felt any proposals they might make would be vetoed by Japan; second, such proposals must involve at least an indication of an intention radically to modify the existing financial system, (as, for example, abandonment of the silver basis of the currency, devaluation, etc), it would be impossible to keep secret the nature of such proposals made by the Chinese Government and submitted for international discussion, and publicity would in the present critical condition of the money market in Shanghai lead inevitably to financial chaos. Consequently, the Chinese wished to avoid the formulation and submission of concrete proposals. They understood, however, that the Powers principally concerned proposed to appoint financial advisers to come to China, and they were therefore thinking of making a suggestion that the whole question be referred to a small international conference of financial experts who should meet in Shanghai to discuss and draw up a scheme for assistance and reform.

Here His Majesty's Minister found it necessary to explain

/aspects

aspects of the situation as it had developed with regard to which Monsieur Monnet appeared to be imperfectly informed. He recapitulated briefly the history of the negotiations. The initiative had in fact been taken by the Chinese who had as early as the Autumn of 1934 sought financial assistance in London. Various proposals had been made which His Majesty's Government had found themselves unable to approve. Eventually they had decided that any assistance to China must be international in character, and they had communicated their views to the Chinese, American, Japanese, Governments. The Chinese had shown a strong disinclination to international discussion or participation, and made it clear that they desired that at least the lead should be taken by His Majesty's Government. The Chinese had wished to submit their proposals for consideration first to His Majesty's Government, who, however, had stated that they could not agree to such a course. He had made this perfectly clear to T.V. Soong and H.H. Kung, but the latter had been most persistent and had even endeavoured to thrust upon him at the moment of departure "draft" proposals.

With regard to the appointment of financial experts His Majesty's Minister explained that the position was not very clear, but it was at any rate not what the Chinese appeared to suppose. The facts were that the Foreign Office had telegraphed some ten days ago that a financial expert would be sent out to be attached to the Minister's staff as adviser on the technical aspects of the complicated financial questions which would presumably be engaging attention for some time to come. He was instructed to inform his interested Colleagues, but before he could do so, and indeed before he had himself received the telegram, he had been

/approached

approached by Mr. Suma who had said that the Japanese Government would not agree to the proposal to appoint financial experts. When His Majesty's Minister subsequently expressed surprise that there should be any objection to the attachment of financial advisers to the Legation staffs, Mr. Suma said that the proposal as reported by the Japanese Ambassador in London seemed rather different. He added that he would report what he had heard from His Majesty's Minister to Tokyo: it was possible that they might reconsider their attitude if the proposal amounted to no more than what the Foreign Office had indicated to His Majesty's Minister. His Majesty's Minister went on to tell Monsieur Monnet that it had later appeared that the American Minister had similarly received from Washington a report of the proposal which was different from that of which he himself had received information from the Foreign Office. His talks with Mr. Suma and with the American Minister had been reported by telegram to the Foreign Office and Tokyo. He was really not quite sure precisely what had happened or was happening. His telegram might elicit further particulars. In spite of this uncertainty it seemed clear nevertheless that, since the Japanese had very definitely objected to the sending out of financial experts, they would certainly object even more strongly to the formal submission of the question to an international conference of experts with a view to the formulation of concrete proposals for financial assistance. His advice to the Chinese, therefore, would be to abstain from making any such suggestion until it had been ascertained precisely what the proposal was in regard to these experts,

/and

and what the reactions to it were in Tokyo and New York. He would make immediate enquiries by telegram.

Monsieur Monnet said that he (and the Chinese authorities) had not been aware of the Japanese attitude towards the proposed appointment of the financial experts, and agreed that what he had now learned materially affected the position. He appeared to concur when His Majesty's Minister suggested that, rather than reference to a conference of experts in Shanghai, a better procedure would be that a scheme should be evolved by the Chinese themselves as the result of informal discussions with financial advisers, attached to the interested Legations in the manner which he understood was proposed by the Foreign Office.

Monsieur Monnet then went on to explain that, in addition to any major measures of radical financial reform which might eventually be agreed upon by China and the Powers principally concerned, immediate assistance was essential in the form of "some injection of foreign capital into the "Shanghai market". As a result of investigations he had made, and of discussions he had held with T.V.Soong, H.H. Kung, Mr. Henchman of the Hong Kong and Shanghai Bank, and others, he was satisfied that the monetary situation in Shanghai was critical and was deteriorating. If financial collapse was to be averted, and a suitable atmosphere created for the deliberations of the experts on the major question of currency reform, it was absolutely necessary that those deliberations should begin soon and that they be preceded by an immediate measure of relief in the form of this "injection of foreign capital". The proposal made by the Hong Kong and Shanghai Bank, and by H.H. Kung and T.V. Soong, was that it should take the shape of an international sterling loan issued in

/Shanghai

Shanghai by the foreign interests locally represented, and that it should be used to relieve the present financial stringency through purchases of Chinese Government bonds held as security by the Chinese banks. He made no statement as to the amount of the loan immediately required, or as to the security on which it might be made. He assented to a suggestion that the uses to which it would be put would duplicate those for which the $100 million Currency Loan had just been issued on the security of the increased Customs revenues, but he offered no comment on this aspect of the proposal. In response to a suggestion that the Treasury might object to the issue of a sterling loan even in Shanghai, he emphasised the fact that the immediate loan must be regarded as a necessary preliminary to, and an integral part of, any scheme of international financial assistance for radical currency reform which might ultimately be decided upon. He felt that viewed in that light, and not regarded as a merely temporary and isolated measure of relief, the Treasury would probably waive any objections to its issue in Shanghai.

With regard to America the position was extraordinary, but quite definite and likely to persist. The President and the United States Treasury were opposed to the policy of purchasing silver with a view to forcing up the price, and would willingly discontinue it in view of its reactions in China. They were, however, even more vitally concerned to prevent inflation, and in order to do so were obliged to counteract inflationist votes by subscribing to the silver purchasing policy of the Senator Pittman group. While in America Monsieur Monnet had had the fullest discussions with the officials of the Treasury, and the State Department, and he was satisfied that in this matter of

/international

international assistance to China America would be glad to follow our lead. Meanwhile, however, purchases of silver would continue and the price of silver would go on rising with increasingly disastrous effects on Chinese finances.

Japan was opposed to international assistance to China, and was undoubtedly exerting pressure to prevent the Chinese Government from obtaining it, but she would accept a fait accompli.

France had no real interest in the question. She would do what we did, and her contribution to the loans would be useful.

Finally it was agreed that nothing should be done until His Majesty's Minister had ascertained the position with regard to the appointment of the financial advisers. Monsieur Monnet stated that the Chinese Government would certainly take no action in the matter until H.H. Kung and T.V. Soong had heard from him.

(Initialled) J.C.H.

18.4.1935.

INDEXED

In any further communication on this subject, please quote
No. F3909/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

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1935

CONFIDENTIAL

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THE Under-Secretary of State for Foreign Affairs presents his compliments to The Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Foreign Office,
26 June, 1935.

App. 4224.

Reference to previous correspondence: Tr. R. 19/6

Description of Enclosure.

Name and Date.	Subject.
HM Representative Peking Despatch No. 595 of 16 April 1935	Chinese currency situation

REGD POL. DEPT.
27 JUN 1935

Similar letter sent to Co Do Treasury Board of T Do T

14—6130 10950 (2)

ENCLOSURE IN WEEKLY LETTER
No. 27 = 4 JUL 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

F.O.
4416
1935

Copy

No.595 (152/36/1935) Confidential Bag.

(F 3909/6/10)

His Majesty's Minister, Peking, presents his compliments to His Majesty's Principal Secretary of State for Foreign Affairs, and transmits herewith three copies of the undermentioned paper.

Peking,
16th April, 1935.

Reference to previous despatch:
Telegram to Foreign Office No.331 of 16th April, 1935.

Description of Enclosure.

Name and Date.	Subject.
To Dr. H.H. Kung, letter of 16th April, 1935.	Chinese Currency Situation.

Copied to: See enclosure.

4416
1935

By Safe Hand.

Copied to:-
Comm. Couns.
Sub-Legn.
Foreign Office.
Tokyo.

(152/36/1935)

BRITISH LEGATION,
PEKING.
16th April, 1935.

Dear Doctor, Kung,

You will remember that at our interview on 8th April, you suggested that you should give me a preliminary draft which you had drawn up of proposals for remedying the financial situation. I think your idea was that the observations of British Government experts might be of assistance to you.

I referred your suggestion to my Government and they have now replied that they consider it would be undesirable for them to be shown any such preliminary draft, as they regret that in the circumstances they would feel bound to communicate to other governments anything amounting to formulated proposals.

(Sgd) Alexander Cadogan.

His Excellency
Doctor H. H. Kung,
Minister of Finance,
NANKING.

wh INDEXED

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Mr R

In any further communication on this subject, please quote
No. F 3761/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

P.Z. 4227 1935

THE Under-Secretary of State for Foreign Affairs presents his compliments to the Under-Secretary of State for India, and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Foreign Office,
18th June, 1935.

pp. 40bis - T/r R.13
4120 - T/r R.17/6

Reference to previous correspondence:

F.O. letter F 3018/6/10 of 25th May.

Description of Enclosure.

Name and Date.	Subject.
From H.M. Minister at Peking. N° 463 22nd March.	Chinese financial situation.

ENCLOSURE IN WEEKLY LETTER
No. 25 20 JUN 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

19 JUN 1935
INDIA OFFICE

Similar letter sent to D.O.T. D.O.
B of T. Treasury.
C.O.

14—6130 10950 (2)

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F.Z. 4227 1935.

CHINA.

May 24, 1935.

CONFIDENTIAL.

SECTION 1.

[F 3361/6/10]

Sir A. Cadogan to Sir John Simon.—(Received May 24.)

(No. 463.)

HIS Majesty's Minister, Peking, presents his compliments to His Majesty's Principal Secretary of State for Foreign Affairs, and transmits herewith copy of an aide-mémoire, dated the 8th March, respecting the Chinese currency situation.

Peking, March 22, 1935.

Enclosure.

Aide-mémoire.

AS a result of the prolonged consideration which has been given in London to the remedies proposed for the difficulties in which China is involved by the rise in the value of silver, His Majesty's Government in the United Kingdom feel that full and frank communication with the other Powers most closely interested should no longer be delayed. As the Chinese Government have already been informed, His Majesty's Government felt bound to discourage the proposals referred to above because they believed they would offer no real or lasting remedy, but this refusal does not mean that His Majesty's Government are indifferent to China's economic and financial difficulties. On the contrary, these difficulties are a matter of grave concern to His Majesty's Government, and their strong desire is to help China in co-operation with the other Governments mainly concerned.

His Majesty's Government have therefore explained their attitude as set out above, and the action they have already taken in regard to the proposals recently put forward to the Governments of Japan, the United States of America and France. Before embarking on discussions with those Governments, His Majesty's Government would be glad to learn whether the Chinese Government have any observations or suggestions to make.

The general policy of His Majesty's Government in the Far East is influenced by the desire that there should be cordial relations between China and Japan based on a friendly settlement of the outstanding difficulties between the two countries. His Majesty's Government believe that this is the only possible basis for a general *détente* in the Far East from the wider point of view of the general interests of the countries mainly concerned, which is of supreme importance, and without which there can be no satisfactory solution of any of the particular problems with which these countries are faced. No plan for dealing with China's financial difficulties, for example, could be really satisfactory unless it contributed to or formed part of such a *détente*. The view of His Majesty's Government, therefore, is that it is vital that any plan for assisting China, besides being technically sound, should be carried out with the friendly agreement of the other Powers. His Majesty's Government would therefore particularly value an immediate expression of the views of China as to the best way in which this might be done.

Nanking, March 8, 1935.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

FOREIGN POL. DEPT.
15 JUN 1935
FOREIGN OFFICE

ENCLOSURE IN WEEKLY LETTER
NO. 25 20 JUN 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Foreign Office, S.W.1.

14 JUN 1935, 193

The Under-Secretary of State,

India Office.

8—11131 (4)

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P.Z. 4120 1935

From CHINA.

Decypher. Sir A. Cadogan (Peking) 11th June 1935.

D. (Wireless) 12th June 1935.

R. 9.30 p.m. 12th June 1935.

No. 556.

- - -

Foreign Office telegram No. 217.

I have carried out instructions contained therein.

Minister of Finance who is in Shanghai has sent message of thanks and assurance that Sir F. Leith Ross will have the fullest co-operation of Chinese authorities.

Soong when informed by acting Commercial Counsellor exclaimed that he was afraid that Sir F. Leith Ross would arrive too late and that situation was now being held only with great difficulty. He at once added however that the above remark was only expression of personal opinion and asked Mr. George not to repeat it as a message to me but to say how much he regretted that adviser could not arrive earlier.

As regards Soong's remarks I should add that before Foreign Office telegram under reference had been received Soong had sent for Mr. George and handed him urgent personal letter dated June 8th to me pointing out that ever deepening depression had led to an increase in withdrawals from the bank; that several banks had closed their doors and that government had had to assist two note issuing commercial banks. Letter refers

Letter refers to native bank crisis reported in Mr. George's telegram No. 125 and states that while loss of confidence is still not widespread and position of (? large) banks fundamentally sound, the forces of deflation and failures amongst native banks are throwing serious strain on Shanghai banking system. That situation has so far been managed in expectation of consultations initiated by His Majesty's Government for a solution of monetary difficulties but that the time-factor is daily increasing in importance. Letter finally expresses hope of being able to discuss matters with me when I am in Nanking and I have replied that I shall be glad to do so.

If Sir F. Leith Ross cannot leave England before August it will no doubt be borne in mind that two weeks or more would be saved if he travelled via Siberia.

Addressed to Foreign Office No. 556, June 11th, repeated Saving Commercial Counsellor, Nission.

D.O. 3.

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Communications on this subject should be addressed to—
THE UNDER-SECRETARY OF STATE,
DOMINIONS OFFICE,
DOWNING STREET, LONDON, S.W.1,
and the following number quoted:—
6838/96.

Subject: Situation in Far East

P.Z. 4054 1935

Already read under P.Z. 4032/35.

P.Z. 4054. M.T. 12/6

Reference to previous correspondence:

Letter to/from the Dominions Office of the 8.6.35. 4032 M R 13/6

Cur B 63/Amdt CR

Transmitted by direction of the Secretary of State for Dominion Affairs.

A copy has also been sent to the F.O.

REGD. DEPT. 13 JUN 1935 INDIA OFFICE

Dominions Office, Downing Street,

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12 JUN 1935

(R2692) Wt 17584/3079 20.000(4) 9/33 H & Sp Gp 112

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P.Z.
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1935

TELEGRAM from the Secretary of State for Dominion Affairs to the Secretary of State for External Affairs Canada, the Prime Minister of the Commonwealth of Australia, the Governor General of New Zealand, the Minister of External Affairs Union of South Africa and the Minister for External Affairs Irish Free State (by bag).

(Sent 4 p.m., 8th June, 1935.)

Circular B. No.63. Confidential.

My telegram of 5th March Circular B. No.24, Confidential. Financial situation in China. The Chinese Government expressed their gratitude for the communication made to them by His Majesty's Ambassador and the Japanese, United States and French Governments indicated generally that they would be prepared, in conjunction with His Majesty's Government in the United Kingdom, to examine any proposals which might be put forward by the Chinese Government. Up till April the Chinese Government had however put forward no concrete scheme for the consideration of the Powers.

A decision was then taken by His Majesty's Government in the United Kingdom that, in view of the complex technical aspects of the problems to be examined, it would be well to attach a financial expert to His Majesty's Ambassador at Peking. This decision was communicated to the Chinese Government, who welcomed the step, and to the other interested Governments, who were at the same time invited to consider following the lead given by His Majesty's Government. It was also suggested to the Chinese Government that they might prefer to postpone putting forward any proposals which they might be elaborating until the arrival of this expert.

Some delay ensued owing to the difficulty of finding an expert of sufficient standing, but His Majesty's

Government

Government in the United Kingdom have now appointed Sir Frederick Leith-Ross, Chief Economic Adviser to His Majesty's Government, as temporary Financial Adviser to His Majesty's Ambassador at Peking. He will leave England at the beginning of August. Sir Alexander Cadogan has been instructed to inform the Chinese Government of the appointment.

His Majesty's Ambassadors at Tokyo, Paris, Washington and Rome have also been instructed to notify the appointment to the Governments to which they are accredited and to express to them the hope of His Majesty's Government in the United Kingdom that they will take similar action. Sir Robert Clive has been instructed to emphasise to the Japanese Government that there is no suggestion on the part of His Majesty's Government in the United Kingdom of a formal international economic inquiry.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN [illegible] LETTER
NO. 24 13JUN 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

RECD. POL. DEPT.
12 JUN 1935
INDIA OFFICE

Foreign Office, S.W.1.

11 JUN 1935, 193 .

The Under-Secretary of State,

India Office.

8—11131 (4)

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P.Z.
4054
1935

From FRANCE.

Telegram (en clair) from Sir G.Clerk (Paris).

D. (By Post) 8th June, 1935.

R. 10th June, 1935.

No.119. SAVING.

xxxxxxxxxxxxx

4031. Your telegram No.202 Saving.

Draft note handed to Head of Asiatic Department at Quai d'Orsay this morning.

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P.Z.
4054
1935

NO DISTRIBUTION.

Decode. Sir A.Cadogan (Peking).
8th June, 1935.

D. (By Wireless) 8th June, 1935.

R. 10.00 p.m. 8th June, 1935.

No.541. (R).

xxxxxxxxxxx

Following received from Commercial Counsellor June 7th.

Addressed to Peking No.125, repeated to Mission.

Two of the note issuing modern style Chinese banks the Ningpo Commercial Bank and the National Industrial Bank, having got into difficulties the managers of these banks were last week replaced by government nominees. Withdrawals by depositors were similarly responsible for crisis in the affairs of certain native banks over the past week-end. The crisis was partly attributable to the approach of dragon boat festival settlement day on June 4th. On June 2nd the native banks guild issued a statement that only 500 dollars at a time could be withdrawn ny depositors and that native bank orders and cheques would only be negotiated amongst member banks. The situation was saved by the intervention of the Ministry of Finance which advanced the native banks guild bonds of the recent 100,000,000 dollars currency loan to the value of 25,000,000 dollars against title deeds and other securities. The restrictions above mentioned which would have caused serious dislocation of import business have now been withdrawn and settlement has again been tided over. Two minor banks have closed their doors.

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P.Z. 4032

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Communications on this subject should be addressed to—
THE UNDER-SECRETARY OF STATE,
DOMINIONS OFFICE,
DOWNING STREET, LONDON, S.W.1,
and the following number quoted:—
6833/-

Subject: Financial situation in China / India

MR R

pp 4031 Mr. R 12/6

Reference to previous correspondence:

Letter *to* / *from* *the Dominions Office of the* _

Tel Cir B No 63.

Transmitted by direction of the Secretary of State for Dominion Affairs.

A copy has also been sent to the FO

ENCLOSURE IN WEEKLY LETTER
NO. 24 13JUN 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

REGD. P.Z. DEPT.
11 JUN 1935
INDIA OFFICE

Dominions Office, Downing Street,
193

8 JUN 1935

(R4006) Wt 19610/3279 20,000(4) 10/34 H & Sp. Gp 640

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P.Z.
4032
1935

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TELEGRAM from the Secretary of State for Dominion Affairs to the Secretary of State for External Affairs Canada, the Prime Minister of the Commonwealth of Australia, the Governor General of New Zealand, the Minister of External Affairs Union of South Africa and the Minister for External Affairs Irish Free State (by bag).

(Sent 4 p.m., 8th June, 1935.)

Circular B. No.63. Confidential.

My telegram of 5th March Circular B. No.24, Confidential. Financial situation in China. The Chinese Government expressed their gratitude for the communication made to them by His Majesty's Ambassador and the Japanese, United States and French Governments and indicated generally that they would be prepared, in conjunction with His Majesty's Government in the United Kingdom, to examine any proposals which might be put forward by the Chinese Government. Up till April the Chinese Government had however put forward no concrete scheme for the consideration of the Powers.

A decision was then taken by His Majesty's Government in the United Kingdom that, in view of the complex technical aspects of the problems to be examined, it would be well to attach a financial expert to His Majesty's Ambassador at Peking. This decision was communicated to the Chinese Government, who welcomed the step, and to the other interested Governments, who were at the same time invited to consider following the lead given by His Majesty's Government. It was also suggested to the Chinese Government that they might prefer to postpone putting forward any proposals which they might be elaborating until the arrival of this expert.

Some delay ensued owing to the difficulty of finding an expert of sufficient standing, but His Majesty's

Government

Government in the United Kingdom have now appointed Sir Frederick Leith-Ross, Chief Economic Adviser to His Majesty's Government, as temporary Financial Adviser to His Majesty's Ambassador at Peking. He will leave England at the beginning of August. Sir Alexander Cadogan has been instructed to inform the Chinese Government of the appointment.

His Majesty's Ambassadors at Tokyo, Paris, Washington and Rome have also been instructed to notify the appointment to the Governments to which they are accredited and to express to them the hope of His Majesty's Government in the United Kingdom that they will take similar action. Sir Robert Clive has been instructed to emphasise to the Japanese Government that there is no suggestion on the part of His Majesty's Government in the United Kingdom of a formal international economic inquiry.

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284 London 772 RR

CONFIDENTIAL

Immediate.

P.Z. 4031 1935

App. 39 30. M.O. 12/6

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 24 13 JUN 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

REGD. POL. DEPT.
11 JUN 1935
INDIA OFFICE

Foreign Office, S.W.1.

18 JUN 1935

, 193 .

The Under-Secretary of State,

India Office.

8—11131 (4)

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(F 3666/6/10)

P.Z. 4031 1935

To CHINA.

Cypher telegram to Sir A. Cadogan (Peking),
Foreign Office, 6th June, 1935. 8.30 p.m.
No. 217.

IMMEDIATE.

1. His Majesty's Government have selected Sir F. Leith-Ross, K.C.B., K.C.M.G., Chief Economic Adviser to His Majesty's Government, to be attached to Your Excellency as temporary Financial Adviser. He will leave England at the beginning of August, which is the earliest date at which he can be released from his present duties. He will be accompanied by Mr. E. Hall-Patch, who will act as his assistant.

2. Please inform the Chinese Government and subsequently your French, Italian, Japanese and United States colleagues. Please add that we propose to give the announcement of Sir F. Leith-Ross's appointment to the London Press on Saturday evening for publication on Sunday next, June 9th, and his appointment is to be treated as confidential in the meantime and any leakage to the Press is to be avoided.

3. You should explain to the Chinese Government that the post of Chief Economic Adviser to His Majesty's Government is one of the principal posts in the Civil Service. Since 1924 Sir F. Leith-Ross has been the Adviser to His Majesty's Government on the financial relations between this country and foreign countries and was the chief permanent official in the United Kingdom Delegation at the two Hague Conferences of 1929 and 1930 and the London Conference of 1931, and the Lausanne Conference of 1932. Since the economic crisis of 1931 he has been the Chief Adviser of His Majesty's Government on questions

of

of foreign exchanges, currency and foreign loans. He accompanied the Prime Minister to the U.S.A. in April, 1933, and returned alone for further negotiations in September 1933. He was one of the chief advisers to His Majesty's Government at the World Conference of June 1933. He represented His Majesty's Government during the important financial negotiations with the German Government in June, 1934, and October, 1934, and with the Italian Government in April, 1935, and numerous other financial and economic negotiations. He has taken a prominent part in the work of the Economic Committee of the League of Nations of which he is now Vice Chairman.

4. It is only with the greatest difficulty that Sir F. Leith-Ross can be spared from his post at such a difficult time as the present, but His Majesty's Government desire that the most authoritative advice which they have at their command should be made available to you, and through you to the Chinese Government in co-operation with the other governments concerned.

5. His Majesty's Government regret that it is not possible to release Sir F. Leith-Ross from his present duties until the beginning of August, so that he cannot reach China till September. But his arrival at that date will enable him to get into touch with the Chinese Ministers and others as soon as the holiday season is over.

6. <u>For your confidential information</u>. Sir F. Leith-Ross cannot be away from this country for more than six months, but will leave Mr. Hall-Patch in China to act as your Financial Adviser and to enable Sir F. Leith-Ross to continue to keep in close touch with the Chinese financial situation.

Repeated to Paris No. 201 Saving, Washington No. 152, Tokyo No. 96 and Rome No. 310.

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P.Z. 4031 193?

(F 3666/6/10)

Cypher telegram to Sir R. Clive (Tokyo) No. 97,
Sir R. Lindsay (Washington) No. 153,
Mr. Campbell (Paris) No. 202 SAVING,
Sir E. Drummond (Rome) No. 311,

Foreign Office, 6th June, 1935. 10.00 p.m.

My telegram to Peking No. 217.

Please communicate confidentially the contents of paragraph 1 to the Japanese / United States / French / Italian Government.

It is our hope that they will take similar action and we should be glad to know as early as possible the name of the expert selected by them.

(To Tokyo only)

Please remind the Japanese Government that, as was explained to Japanese Embassy by Sir W. Fisher in April, we are not proposing a formal international economic enquiry, which we believe would not be acceptable to Japan, but a discussion through ordinary diplomatic channels. Technical enquiry will in no way usurp the political functions of the respective Ambassadors, but presence of financial experts of recognised eminence will make possible an informed analysis of the financial and economic position which is the pre-requisite condition for political discussion.

Repeated to Peking No. 218.

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F.Z. 4031 1935

(F 3666/6/10)

TO ITALY.

Cypher telegram to Sir E. Drummond (Rome),
Foreign Office, 6th June, 1935. 9.00 p.m.
No. 312.

IMMEDIATE.
CONFIDENTIAL.

My immediately preceding telegram.

Your Excellency will observe that it has been thought desirable to reconsider attitude adopted in my telegram No. 8 Tour (of March 26th) to Sir A. Cadogan (Repeated to Rome No. 41 Saving).

2214

While it has been decided to instruct you to invite Italian Government to appoint expert it is unnecessary for you to go out of your way to press for their active participation.

Repeated to Paris No. 203 Saving, Peking No. 219, Washington No. 154 and Tokyo No. 98.

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F.Z.
4031
1935

From JAPAN.

Decode. Sir R. Clive (Tokyo),
8th June, 1935.

D. 3.50 p.m. 8th June, 1935.

R. 9.30 a.m. 8th June, 1935.

No. 152. (R).

Your telegram No. 97.

I informed Vice Minister for Foreign Affairs as instructed this morning of the appointment of Sir F. Leith Ross. I emphasized that he was distinguished economist with no political bias about China. I expressed the hope of His Majesty's Government that the Japanese Government would see fit to take similar action. Vice Minister for Foreign Affairs thanked me for communication and said he would at once inform me if the Japanese Government decided to make a similar appointment but there was no obvious choice and as China was so near Japanese Government could always send someone if necessary at short notice.

Addressed to Foreign Office No. 152, repeated to Peking (Saving).

Encl. to FO Covering letter d. 8/6/35.

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P.Z. 3930 1935

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India

Mr E

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11/6

(F 5575/6/10). To CHINA.

Cypher telegram to Sir A. Cadogan (Peking).

Foreign Office, 4th June, 1935. 4. 45 p.m.

No. 209.

.....

3795

Your telegram No. 490 (of the 29th May: Financial situation in China).

I am glad to learn that policy of the Chinese Government remains as stated. In these circumstances I do not propose at this stage to comment on the scheme referred to in your telegram No. 375.

Repeated to Tokyo No. 95, Washington No. 19 (Saving) and Paris No. 195 (Saving).

ENCLOSURE IN SECRET LETTER
No. 24 13JUN 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Enclosure to Foreign Office letter dated 3/6/35.

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From CHINA.

Decypher. Sir A. Cadogan (Peking),
31st May, 1935.

P.Z. 493/35

D. W/T 31st May, 1935.

R. 7.30 p.m. 31st May, 1935.

Ref p 3765. Rec'd 1/6

No. 501.

Following received from Commercial Counsellor.

Addressed to Peking No. 112, May 29th.

3375. Foreign Office telegram No. 180.

Soong sent his secretary May 29th to say he had been much gratified to receive your message. He attaches greatest possible importance to arrival of expert and would like to enquire date on which he may be expected.

Repeated to Mission (Saving).

ENCLOSURE IN WEEKLY LETTER
NO. 24 13 JUN 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

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I.O.
3739
1935

Pub. by 1936. 1/6.

Pp 3430.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

REGISTRY DEPT.
30 MAY 1935
INDIA OFFICE

Foreign Office, S.W.1.

29 MAY 1935 , 1935.

The Under-Secretary of State,

India Office.

ENCLOSURE IN WEEKLY LETTER
NO. 23 6 JUN 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

8—11131 (4)

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F.O.
3739
1935

From CHINA.

Decypher. Sir A. Cadogan (Peking),
27th May, 1935.

D. W/T 27th May, 1935.

R. 9.10 p.m. 27th May, 1935.

No. 480.

Following received from Mission.

Addressed to Peking No. 114 May 23rd, repeated to Commercial Counsellor.

My immediately preceding telegram.

Doctor Kung's conversation with Faulkner makes it appear that proposed sterling loan in Shanghai would not as indicated by Monnet in his talk with you on April 17th be an international operation nor be regarded as preliminary and integral part of scheme of international financial assistance for a radical currency reform but would be an entirely independent operation which would make any subsequent international assistance unnecessary. It is consequently diametrically opposed to Doctor Kung and Soong's message as contained in third paragraph of Commercial Counsellor's telegram No. 94.

2. Doctor Kung said that loan would be secured on customs.

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ff 3439.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 23 - 6 JUN 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

POL. & SECRET DEPT.
31 MAY 1935
INDIA OFFICE

Foreign Office, S.W.1.

30 MAY 1935, 1935.

The Under-Secretary of State,

India Office.

8—11131 (4)

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F.O.
3765
1935

FROM CHINA

Decypher. Sir A. Cadogan (Peking).
29th May 1935.

D. (By Wireless) 29th May 1935.

R. 8.30 p.m. 29th May 1935.

No. 490.

IMMEDIATE.

Following received from Commercial Counsellor:

Addressed to Peking telegram No. 109 May 28th, repeated to Mission. 3730 3739

Mission telegrams Nos. 113 and 114.

Soong sent his Secretary May 27th to say that he understood the Minister of Finance had recently had conversations at Nanking with a representative of the Chartered Bank of India etc. Kung's intention had been simply to express a wish for close co-operation with the British banks in solution of present monetary difficulties. He had however spoken in somewhat ambiguous terms and it was feared that he might have conveyed an impression different from what he intended. It was of course the policy of Chinese Government to continue the present negotiations through diplomatic channels and to postpone putting forward any concrete proposals pending consultation with the British expert. They had no alternative plan whatever and any impression to that effect was entirely mistaken.

I understand that Secretary subsequently spoke to Faulkner in similar language.

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P. Z. 3730/1935.

Financial Secretary
for information.
H.A.F. Rumbold
29.V.35.

Seen, thanks yrs.
J.H. Martin
30.5.35

Put by
H.A.F.R.
31/5.

F.
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1935

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CONFIDENTIAL

pp 3639.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 22 30MAY 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

REGD. POL. & SECT. DEPT.
29MAY1935
INDIA OFFICE

Foreign Office, S.W.1.

, 1935 .

The Under-Secretary of State,

India Office.

8—11131 (4)

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F.O.
3730
1935

From CHINA.

Decypher. Sir A. Cadogan (Peking). 25th May, 1935.

D. (Via W/T.) 25th May, 1935.

R. 9.30 p.m., 25th May, 1935.

No. 475.

::::::::::::::

Following received from Mission No. 113 of May 22nd.

Begins.

Addressed to Peking No. 113, May 22nd, repeated to Commercial Counsellor.

Confidential.

Your letter of May 17th.

Faulkner of Chartered Bank of India saw Dr. Kung this afternoon to pay a formal call and in the course of conversation Dr. Kung said that Chinese Government had abandoned all intention of securing an international loan negotiated through His Majesty's Government and other interested Powers. They proposed instead to float a loan for an unspecified amount in sterling or gold (?currencies) on Shanghai market, their idea being to utilise for the purpose services of one or both British banks. Dr. Kung was of the opinion that such an operation would not conflict with provisions of consortium nor would it lead to international complications. Proceeds of loan would be held in sterling in London at disposal of Chinese Government to be used in part for conversion of internal loans with consequent large saving on interest payments. Dr. Kung asked Faulkner to approach London office of the Chartered Bank of India as to whether they would be interested in issue and underwriting of loan and said that he preferred that both banks should co-operate in this operation.

2. ...

2. Before seeing Dr. Kung Faulkner had expressed privately to me the opinion that some such scheme as above had lately been under discussion between T.V.Soong and Hongkong and Shanghai Bank at Shanghai and is of the opinion that progress in this direction may already have been made.

3. Faulkner is by no means certain that scheme would appeal to his Head Office and it would certainly be some days before he and his colleagues in Shanghai would be in a position to submit definite scheme to them and he therefore wondered whether it would be possible to know before then how His Majesty's Government would regard it.

4. Faulkner begs that no hint of what Dr. Kung is considering should be given to his principals in London until he himself informs them.

Ends.

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In any further communication on this subject, please quote
No. F 3018/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

P.Z. 3639 1935

300 India Mail Pur by 100% 28/5

THE Under-Secretary of State for Foreign Affairs presents his compliments to the Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the undermentioned paper.

Foreign Office,
25 May, 1935.

P/c 3624.

Reference to previous correspondence:

Description of Enclosure.

Name and Date.	Subject.
H.M. Representative Nanking No 72 Ts. of 18 March	Chinese financial situation

ENCLOSURE IN WEEKLY LETTER
No. 22 30 MAY 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

MAILS BRANCH
27 MAY 1935
INDIA OFFICE

Similar letter sent to Co. Tray.

14—6130 10950 (2)

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F.O.
3639
1935

CHINA.

CONFIDENTIAL.

May 13, 1935.

SECTION 1.

[F 3018/6/10]

No. 1.

Sir A. Cadogan to Sir John Simon.—(Received May 13.)

(No. 12 Tour Series.)

HIS Majesty's Minister at Nanking presents his compliments to His Majesty's Principal Secretary of State for Foreign Affairs, and has the honour to transmit to him copy of a record of an interview with the Vice-Minister for Foreign Affairs on the 18th March, 1935, respecting the currency situation and loan negotiations in China.

Nanking, March 18, 1935.

Enclosure 1 in No. 1.

Waichiaopu Interview, March 18, 1935.

Vice-Minister for Foreign Affairs, and Dr. Liu Shih-hsun.
His Majesty's Minister, and Sir E. Teichman.

CURRENCY SITUATION AND LOAN NEGOTIATIONS.

HIS Majesty's Minister referred to the interview he had had with the Minister for Foreign Affairs a few days before, at which the principal subject discussed had been the financial situation. Sir A. Cadogan was proceeding to recapitulate the main points of the discussion and the nature of the reply which it was hoped would be received from the Chinese Government to the British memorandum, when Mr. Hsu Mo interrupted by observing that he had the Chinese reply with him. Mr. Hsu Mo thereupon handed to His Majesty's Minister the attached memorandum.

His Majesty's Minister, after reading the Chinese reply, expressed his satisfaction at the fact that the Chinese Government agreed with the point of view of the British Government in regard to consultation with the other Powers. He added, however, that he thought His Majesty's Government would hope to receive further proposals from the Chinese Government in due course. They, His Majesty's Government, had originally pointed out that a loan alone would not serve any useful purpose, and they hoped to receive from the Chinese Government some sort of outline of the measures which China proposed to take for her financial and economic rehabilitation. In reply to Mr. Hsu Mo's further enquiry, His Majesty's Minister explained again that what His Majesty's Government would hope to receive from the Chinese Government were concrete proposals for the measures they proposed to take, and if and when it appeared that these measures required a foreign loan, then the time would arrive for discussing the matter with the other interested Powers with a view to co-operative action.

Mr. Hsu Mo referred to the fact that His Majesty's Government had already consulted the American, French and Japanese Governments. The Chinese Government had already heard about the attitude of the United States, but they had as yet received no indication of the probable reactions of the Japanese Government. Had His Majesty's Minister any information on the subject? His Majesty's Minister replied in the negative. Mr. Hsu Mo referred to the omission of the Italian Government, and enquired whether the matter would be raised in Rome. His Majesty's Minister replied that he had no information on the point.

The Vice-Minister for Foreign Affairs remarked that no doubt the negotiations and discussions would take a long time. His Majesty's Minister agreed, but pointed out that in the meantime the situation in Shanghai, though apparently being held by the measures already taken, was very bad. It seemed, therefore, that no time was to be lost in formulating plans. Mr. Hsu Mo concurred.

His Majesty's Minister enquired whether the Chinese Government had any knowledge of the attitude of Japan. Mr. Hsu Mo replied that there had been no formal discussions, only casual conversations on the subject. There had, of course, been much press comment along lines unfavourable to international co-operation. He agreed, however, that this was only press comment. He thought the attitude of the Japanese Government was a passive and watchful one at present. He enquired whether His Majesty's Minister had any information as to the attitude likely to be adopted by His Majesty's Government if Japan objected to co-operative action. Sir A. Cadogan replied in the negative, but remarked that no doubt the attitude of the Japanese could only be elicited by more definite proposals.

E. T.

Enclosure 2 in No. 1.

Aide-mémoire.

THE National Government of the Republic of China has given careful consideration to the contents of the aide-mémoire of the 8th March, 1935, and appreciates the friendly spirit therein manifested by His Majesty's Government in the United Kingdom.

The Chinese Government shares the view of His Majesty's Government in the United Kingdom that a lasting and satisfactory solution of China's economic and monetary difficulties can only be sought by the friendly co-operation and assistance of the foreign Governments chiefly concerned. The Chinese Government also shares the view that a *détente* in the Far East is essential to the successful realisation of any plan to meet the difficulties in which China is involved, and is desirous on its part to contribute its best efforts to this end.

The Chinese Government therefore warmly welcomes the action of His Majesty's Government in the United Kingdom in opening discussions with the Chinese Government and the Governments of the United States of America, France and Japan, holds itself ready to participate in discussions with the Governments chiefly concerned, and will be glad to be informed of the views of His Majesty's Government in the United Kingdom as to how best to facilitate preliminary discussions.

Nanking, March 18, 1935.

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In any further communication on this subject, please quote
No. F3021/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W.1.

F.Z. 3627 1935

CONFIDENTIAL

THE Under-Secretary of State for Foreign Affairs presents his compliments to the Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith cop ies of the undermentioned paper.

Foreign Office,
24 May, 1935.

pp 3616.

Reference to previous correspondence:

Fo. letter of 13 May (F2668/6/10)

Description of Enclosure.

Name and Date.	Subject.
H.M. Representative Nanking No 13 T.S. 18 March No 21 T.S. 28 March	Chinese monetary & economic situation

ENCLOSURE IN WEEKLY LETTER
NO. 22 30 MAY 1935
SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

RECD. POLITICAL DEPT.
25 MAY 1935
INDIA OFFICE

Similar letter sent to Co. Bofi Dof. Treas. Do

14—6130 10950 (2)

F.Z.
3627
1935

COPY.

(F 3019/6/10)

No. 13 T.S.

SAFEHAND.

HIS Majesty's Minister at Nanking presents his compliments to H.M. Principal Secretary of State for Foreign Affairs and has the honour to transmit to him the undermentioned documents.

British Legation,
Nanking.

18th March, 1935.

Description of Enclosure.

Name and Date.	Subject.
Record of Interview with M. SUMA of 18/3/35.	CHINA'S FINANCIAL SITUATION

Copies to:
Peking No. 25 T.S.)
C/C. 9 ") SAFEHAND
Tokyo 4 ")

M. Suma called to see me yesterday morning and asked about the recent negotiations on the subject of the financial situation in China. I told him in outline all that I knew, viz: that we had been approached on behalf of the Chinese Government with enquiries as to whether we could assist in the matter of a loan, but that no very definite proposals had been put up to us. H.M. Government were convinced that if any action could be taken it must be taken in consultation with the other Powers interested, and we had therefore informed the Japanese, United States, and French Governments of what had passed and had at the same time asked the Chinese Government to make suggestions, which, when received, we should wish to discuss with the other Powers. I told him that I had that morning received a preliminary reply from the Chinese Government indicating that they accepted the idea of consultation between the interested Powers, and I added that I had suggested to them that it would be a good thing if they could follow this up with some more concrete proposals.

M. Suma said that his own Government were also conscious of the difficulty of the financial situation here and were anxious to assist. About a month ago the Japanese Commercial Secretary in Shanghai had been sent for to Tokyo in order to make a report upon the situation, so that the Japanese Government might be able to consider what action, if any, was reached to remedy it. M. Suma himself had been approached a week ago by Mr. T.V.Soong, who had put two questions to him. The first was: Would the Japanese Government assist China to reform the Chinese monetary system? As to this, M. Suma said that he thought there were very great difficulties in the way. The Chinese monetary system was a very complicated and uncontrolled one, and in existing conditions he thought it would be extremely difficult to put through an effective

reform.

reform. Mr. Soong's second question was directed to ascertaining whether Japan would be ready to act in co-operation with other Powers in giving any assistance that might be possible to China. As regards this, M. Suma had assured Mr. Soong that Japan would of course be ready to examine with the other Powers what it might be possible to do.

I could not get any more definite information out of M. Suma at this stage, though he again assured me that he was certain that his Government would be glad to discuss with other Governments any plan that might be put forward.

(Intd.) A.C.

N A N K I N G,
19th March, 1935.

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3627
1935

COPY.

(F 3021/6/10)

No. 21 T.S.

SAFEHAND

Copies to Comm.Couns.No. 23 T.S.
Peking 55 "
Tokyo 7 "

HIS Majesty's Minister at Nanking presents his compliments to H.M. Principal Secretary of State for Foreign Affairs and has the honour to transmit to him the undermentioned documents.

British Legation,
Nanking.

28th March, 1935.

Reference to previous correspondence:
F.O. telegram to H.M. Minister at Nanking No. 6 T.S. of 25/3/35

Description of Enclosure.

Name and Date.	Subject.
Memorandum to W.C.P. of 28th March, 1935	CHINA'S CURRENCY SITUATION
Letter to Dr. H.H. Kung 28th March, 1935	

Copies to:
F.O.
Peking
Comm.Couns.
Tokyo

British Legation,
Nanking,
28th March, 1935.

My dear Dr. Kung,

You will remember that on the evening of the 19th March we had a conversation about the Chinese economic and monetary situation, during the course of which you enquired whether it would be possible for the Chinese Government to obtain confidentially the views of His Majesty's Treasury on any proposals that might be in process of formulation with a view to remedying that situation. I said at the time that, as I understood the position, His Majesty's Government would now feel bound to communicate to the other Governments concerned any suggestions received from the Chinese Government, and that they might consider that they were debarred from entering upon any exchange of views with the Chinese Government on the basis that the other Governments were not to be informed of what passed. I referred the matter to my Government, and have now received a telegram from them showing that that, in fact, is their attitude. It would therefore have to be understood that any communication made on behalf of the Chinese Government on this subject through me to His Majesty's Government would be made known to the other interested Governments.

I also enclose, as of possible convenience to Your Excellency, a copy of a memorandum, which I have, on the instructions of His Majesty's Government, addressed to the Wai Chiao Pu.

(Signed) ALEXANDER CADOGAN.

His Excellency
Dr. H.H. Kung,
Minister of Finance,
SHANGHAI.

His Majesty's Minister presents his compliments to the Waichiaopu and has the honour to state that he duly telegraphed to His Majesty's Government the text of the aide-mémoire communicated to him on the 18th March regarding the present Chinese economic and monetary situation.

His Majesty's Minister now has the honour, under instructions from His Majesty's Principal Secretary of State for Foreign Affairs, to assure the Chinese Government that the above mentioned aide-mémoire is receiving the close attention of His Majesty's Government and in the meantime to state that as His Majesty's Government consider it to be of the greatest importance that this whole matter should be dealt with on the basis of complete frankness between all the interested Governments, they would urge the Chinese Government as a first step to communicate forthwith to the other interested Powers the tenour of their aide-mémoire under reference and request the views of those Powers as to how best the discussions contemplated could be facilitated. His Majesty's Government further consider that it is very desirable that all discussions taking place between His Majesty's Minister and the Chinese Government should be conducted on the understanding that they will be communicated fully and frankly to his interested Colleagues.

N A N K I N G,
March 28th, 1935.

INDEXED

In any further communication on this subject, please quote
No. F 3044/553/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

3616
1935

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Pur by 1 MAR 27/5

THE Under-Secretary of State for Foreign Affairs presents his compliments to The Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the undermentioned paper.

Foreign Office,
24 May, 1935.

fp 3552 - M.O. 23/5.

Reference to previous correspondence:

—

Description of Enclosure.

Name and Date.	Subject.
H.M. Representative Tokyo No. 210 of 13 Apl	Japanese & British policy in China

INDIA OFFICE LIBRARY AND RECORDS BRANCH 25 MAY 1935

ENCLOSURE IN WEEKLY LETTER NO. 22 30 MAY 1935 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Similar letter sent to F.O. Admty C.O. D.D. A. Mr

F.Z.
3616
1935

COPY

(F 3044/553/10)

No. 210. (17/105/35).

Copy to Peking.

British Embassy,
Tokyo.
April 13th, 1935.

Sir,

With reference to paragraph 4 of my telegram No. 114 of 12th April I have the honour to enclose herein the excerpts from the Foreign Office Spokesman's remarks in connection with British policy in China which I handed to the Minister for Foreign Affairs at his request.

2. The first of these quotations refers to the recent debate on Far Eastern Affairs in the House of Lords.

3. As regards the second I have since been told that Mr. Amau says he was misquoted by Mr. Byas. What he did, so he says, was to quote a war time saying that "Britain rules the waves but Germany waives the rules" (not ruler). In any case, as I told Mr. Hirota, I considered Mr. Amau's remarks quite uncalled for, especially as they were based on false premises. The British Government had not offered to mediate nor was Mr. Amau justified in disclaiming all knowledge of British policy in China in connection with the present financial crisis.

4. As you are aware Mr. Amau is the aggressive type of Japanese who may reasonably be called an extremist, in sympathy with the military point of view.

5./

The Right Honourable
Sir John Simon, G.C.S.I., K.C.V.O.,
etc., etc., etc.,

5. There is no doubt the Japanese Government are embarrassed about the turn events have taken in China. The British initiative in proposing consultations about the financial situation between the interested Powers runs counter to the Japanese supposed claim to take the lead in matters concerning China. This claim they have so far not ventured to put forward officially but there is no question but that the present Vice Minister for Foreign Affairs, Mr. Amau and other senior members of the Japanese Foreign Office consider such a claim absolutely justified.

6. The last thing the Japanese Government desire to see is another international loan to China in which the Japanese could probably not afford to take an equal share with other Powers. It may be expected therefore that the Japanese Government will continue to throw cold water on any joint loan proposal.

I have, etc.

(Signed) R.H.Clive.

Excerpts from Foreign Office Spokesman's remarks in connection with British policy in China.

From the "Japan Advertiser" of 6th April, 1935.

He remarked that the debate probably took place because of the conception that Britain rules the world and controls the China Sea.

Mr. Byas' report to the New York "Times".

"Spokesman barbed this observation by recalling the war-time joke "Britain rules the waves but Germany waves the ruler".

"Japan Advertiser".

"Are we to take it", asked one of the correspondents, "that Japan is not anxious to co-operate with British policy in China?"

"What is Britain's policy?" the spokesman asked in reply, added that Japan finds it difficult to know definitely.

ENCLOSURE IN FOREIGN OFFICE
COVERING LETTER DATED 21.5.35 313
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INDEXED
FILE COPY
3552
1935

India
Mar

From CHINA.

Par. by
Mar
23/5

Decypher. Sir A. Cadogan (Peking).
May 19th 1935.

D. Wireless. May 18th 1935.

R. 7.40 p.m. May 20th 1935.

No.451.

pp. 3375.

^^^^^^^^^^^^^^^^

Following received from Commercial Counsellor:-

Addressed to Peking telegram No.101 of May 17th, repeated Saving to Mission.

Monnet who constantly asks if I have any news or message for him, told me today that Yoshida the leading Japanese banker here, who has recently been in Japan with Japanese Minister, had stated to Soong on his return that Shigemitsu and other Japanese leaders with whom he had talked were not opposed to a loan provided it was for economic or currency and not for political purposes. Soong thought you might be interested to know this.

ENCLOSURE IN WEEKLY LETTER
NO. 21 23 MAY 1935
FROM POLITICAL AND SECRET DEPT. INDIA OFFICE

Immediate

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P.Z. 3375 1935

CONFIDENTIAL

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 21 23MAY 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

POL. & SEC. DEPT.
17 MAY 1935

Foreign Office, S.W.1.

16 MAY 1935 , 1935.

The Under-Secretary of State,

India Office.

8—11131 (4)

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F.O.
3375
1935

(F 5082/6/10). To CHINA.

Cypher telegram to Sir A. Cadogan (Peking).

Foreign Office, 15th May, 1935. 6.30 p.m.

No. 180.

.....

Your telegrams Nos. 408 and 409 (of 10th May: appointment of financial expert in China).

Please inform the Chinese Government and your United States, Japanese, French and Italian colleagues that His Majesty's Government hope to be able to appoint an expert and notify his name to them shortly. Delay has been due to difficulty of finding someone of sufficient standing who can spare the time.

For your own information: as soon as His Majesty's Government are in a position to announce the expert chosen, they will repeat to the other Governments concerned the hope that they will take similar action without delay.

Please repeat Saving to Tokyo.

Repeated to Washington No. 134, Paris No. 184 Saving and Rome No. 71 Saving.

cc

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3 Spares of encl.

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India

In any further communication on this subject, please quote
No. F. 2668/6/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

3310
1935

Pub Dept
10 MAY
1935.

THE Under-Secretary of State for Foreign Affairs presents his compliments to The Under Secretary of State for India and, by direction of the Secretary of State, transmits herewith copies of the undermentioned paper.

Foreign Office,
13th May, 1935.

pp 3305.

Reference to previous correspondence:

—

Description of Enclosure.

Name and Date.	Subject.
H.M. Representative Nanking No. 7. T.S. 16th March	Chinese financial situation

ENCLOSURE IN WEEKLY LETTER
No. 20 16MAY 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

MAILS BRANCH
14 MAY 1935
INDIA OFFICE

Similar letter sent to CO. Trs. B/T D.O.T. P.O.

14—6130 10950 (2)

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F.O. 3310 1935

CHINA. April 24, 1935.

CONFIDENTIAL. SECTION 2.

[F 2668/6/10] No. 1.

Sir A. Cadogan to Sir John Simon.—(Received April 24.)

(No. 7. Tour Series.)

HIS Majesty's Minister at Nanking presents his compliments to His Majesty's Principal Secretary of State for Foreign Affairs and has the honour to transmit to him the record of an interview with the Minister for Foreign Affairs on the 14th March respecting China's financial situation.

Nanking, March 16, 1935.

Enclosure in No. 1.

Record of an Interview with the Chinese Minister for Foreign Affairs, March 14, 1935.

Present :

Mr. Wang Ching-wei. Sir Alexander Cadogan.
Mr. T'an Sho-hua (private secretary). Sir E. Teichman.

Currency Loan.

His Majesty's Minister, in referring to the financial situation and his visit to Shanghai to see Dr. T. V. Soong, who, it was understood, had been placed by the Chinese Government more or less in charge of the matter, mentioned the communication recently made by Mr. Howe, under his instructions, to the Minister for Foreign Affairs concerning the attitude of His Majesty's Government towards the recent loan proposals.

The Minister for Foreign Affairs said that the matter concerned the Executive Yuan and Government as a whole, and that he was therefore engaged in consulting his colleagues. In the meantime, he desired to express his deep gratitude for the memorandum and his appreciation of the interest shown by His Majesty's Government in the question. He noted the point made by His Majesty's Government in regard to consulting and reaching agreement with the other interested Governments. He referred to Dr. Soong's visit to London and the mission entrusted to Sir F. Maze during the latter's recent stay in England, and thus led up to the point that China had primarily approached Great Britain alone on the matter. It was, however, premature to consider whether to proceed singly or jointly in the matter, since the question had not been fully considered and that stage had not been reached. His Excellency intimated that China would probably prefer to deal singly with Great Britain. If, however, it was found best to make the transaction a joint one, China would certainly hope that Great Britain would take the lead in the matter. The question had not, as he had already stated, been fully considered by his colleagues, but probably the reply which the Chinese Government would make to the memorandum from His Majesty's Government would either be quite a short one and confined to the principles involved, or a more detailed one going into particulars of ways and means for dealing with the matter. In any case, however, the reply would probably be along the lines he had just explained, namely, of intimating China's preference for dealing with Great Britain alone on the matter, or, if other Powers were to co-operate, that Great Britain should take the lead and play the more important rôle. That would be the main point of the reply.

His Majesty's Minister replied, stressing the anxiety of His Majesty's Government to help China in the matter if anything practicable could be done, but laying special emphasis on the importance attached by His Majesty's Government to co-operation with other Powers in the matter. As to the practicability of rendering assistance, His Majesty's Government must await in the first instance any proposals that the Chinese Government might decide to make. But, because they were anxious to give real assistance to China, they had considered in what circumstances such assistance might be effective, and they were convinced that it could not be effective if given in such a way as to arouse suspicions or hurt susceptibilities. Sir A. Cadogan ventured to deprecate any too definite or public stand by the Chinese Government on the point of preferring to deal with His Majesty's Government alone to the exclusion of other Powers. Any sort of publicity given to a reply of that kind would be most unfortunate and might arouse suspicions.

Mr. Wang Ching-wei said he quite understood and appreciated the point made by His Majesty's Government and now emphasised by His Majesty's Minister. He merely wished to intimate confidentially to His Majesty's Minister the views and attitude of the Chinese Government.

Sir A. Cadogan observed that the Chinese Government had asked His Majesty's Government to help them in their difficulties. If His Majesty's Government saw any possibility of being able to help, they were entitled to attach conditions, one of which would be co-operation with other interested Governments. Supposing the Chinese Government were unfortunately unable to accept such a condition, it would be much better merely to refuse the offer of assistance without giving any reason therefor.

Mr. Wang Ching-wei repeated that he quite appreciated the point and the delicacy of the position. He also repeated his gratitude for the communication made by His Majesty's Government.

His Majesty's Minister said he would await with interest the reply from the Chinese Government. Could his Excellency give him any indication as to when it was to be expected?

Mr. Wang Ching-wei replied that he thought it would be ready in a week or ten days' time.

E. T.

Nanking, March 15, 1935.

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pp 3181.
Mr R 10/5 - 1 No

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

RECD. POL. DEPT.
14 MAY 1935
INDIA OFFICE

Foreign Office,

13 MAY 1935

, 193 .

ENCLOSURE IN WEEKLY LETTER
20 16MAY 1935
SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

The Under-Secretary of State,

India Office.

8—8074 (4)

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P.Z. 3305 1935

From CHINA.

Decypher. Sir A. Cadogan. (Peking).
May 10th. 1935.

D. (by wireless) May 10th. 1935.

R. 9.0.p.m. May 10th. 1935.

No. 408.

--------oOo--------

Following received from Commercial Counsellor No. 94 May 7th.

Addressed to Peking; repeated to Mission Saving.

My telegram No. 92.

Monnet handed to me this morning text of a message from himself to you which he said had been approved by Kung and Soong. I am sending it to you by safe opportunity.

(2) More than half the message merely summarises what I have already reported in second paragraph of my telegram under reference as to which Monnet says he will give you full details when he sees you (though I understand he has no intention now of going to Peking until he hears from you again). Message states that while Suma expressed personal opinion that credits would suffice to relieve the situation he said that Japan would be ready to participate in a loan on the two conditions mentioned. Suma explained that by the first condition he meant that loan should be non political and that money should be used for specific purposes. As regards second condition he was more (gr.omit.) and though Monnet gathered he meant that loan should be beneficial to China as a whole (Monnet told me privately he construed this condition as meaning that loan should not be used to try and upset Wang Chin-wei's position) on the other hand the remainder of the message stresses desire of Kung and Soong to co-operate in every way in rendering international action possible.....

possible. Though they consider present situation very difficult they are reconciled to expediency of awaiting experts' arrival which they hope will take place as early as possible. They are anxious to impress this upon His Majesty's Government and ask when experts' arrival may be expected. They further trust it may be possible for His Majesty's Government to persuade other governments to take similar action without delay.

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F.Z. 3305

From CHINA.

Decypher. Sir A.Cadogan (Peking). 10th May, 1935.

D. (By Wireless) 10th May, 1935.

R. 9.00 p.m. 10th May, 1935.

No.409.

xxxxxxxxxxxxxxxxxx

Commercial Counsellor's telegram No.94.

Bearing in mind warning contained in your telegram No.155 I shall be in no hurry to send any further message to Monnet and I do not wish to encourage him to come here at least until I have something definite to tell him.

On the other hand Monnet seems to have constituted himself or to have been constituted the spokesman of Kung and Soong and any such message to him will be passed on to them and we have to consider the effect it may have upon them.

I understand His Majesty's Government are anxious to help China if it should prove in any way possible and it seems to me therefore that while possibility remains and while matter is still under consideration they can, without unduly raising Chinese hopes, at least keep them alive and restrain China from giving way to a despair that might drive them into some foolish action.

Is it possible to give me any indication how the matter of appointment of expert stands and, if there are difficulties in the way of proposed appointment, the nature of those difficulties and the possibility of overcoming them.

Addressed to Foreign Office telegram No.409 of May 10th repeated to Commercial Counsellor and Saving to Mission and Tokyo.

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Notes.

Register No.
P. Z.
3107
~~3030~~/35.

SECRET.
POLITICAL DEPARTMENT

Minute Paper.

Dated
Rec. 193 .

	Date.	Initials.	SUBJECT.
To			
Under Secretary	7.5.		CHINA.
Secretary of State...			
Committee.....			ECONOMIC AND FINANCIAL POSITION.
Under Secretary.....			
Secretary of State....			

Copy of to

FOR INFORMATION.

The economic and financial position in China has been engaging the attention of His Majesty's Government. The trouble is a lack of confidence that the Chinese dollar can remain convertible into silver, in view of the silver purchase policy of the U.S.A. and the consequent flight of capital from China, and also the adverse balance of payments from which China suffers. The situation has indeed certain similarities with that in Afghanistan but there, although the high price of silver is resulting in its export, the policy of the U.S.A. appears to play a much less prominent part.

2. A Chinese proposal for a sterling loan of £20,000,000 was rejected by His Majesty's Government (Foreign Office telegram No.29 of 19th January)

because/

Previous papers :—

3330 1000 12.34

because it would provide no lasting remedy for China's difficulties. But His Majesty's Government made an approach to the interested Powers (U.S.A., Japan, China and France) with a view to their co-operation with His Majesty's Government in considering the best means of overcoming these difficulties. (Foreign Office telegrams of 22nd February). It was emphasised to the Chinese Government that a settlement of outstanding difficulties between China and Japan was most desirable in this connection and that we awaited China's proposals regarding the measures necessary to right her monetary situation.

3. This initiative has evoked extraordinarily little response. The U.S. Government is of course tied by internal political considerations to its silver purchase policy (Washington telegrams Nos.60 & 61 of 1st March) and the Chinese are reluctant to put forward any positive proposals. They have made several attempts to get His Majesty's Government to share their responsibility, by seeking to engage us in discussion of a draft scheme before its submission to other Powers, but this His Majesty's Government have refused to do. (Foreign Office telegram No.142 of 12th April). A factor in our refusal may be that Mr.Soong appears to contemplate taking the Chinese dollar off the silver standard and linking it at a lower rate to sterling, an international loan being obtained to effect the change (PZ. 2002/35)* and such a proposal would be viewed with added suspicion by other Powers, especially Japan, if it were believed that His Majesty's Government had participated in its formulation. The Chinese dislike the idea of Japanese co-operation because they fear that Japan would desire a political reward for any assistance she rendered.

* ~~Peking tel^m No~~ Sir A. Cadogan's tel^m No 9 Tour of 18th March.

4. The Japanese, although they have not yet declared their policy, seem to wish the situation to be left to drift.

There/

There are however indications that they would not object to the Powers assisting China, so long as their own claim to a special position in East Asia were not challenged and that they may seek trade concessions in other parts of the world in return for any co-operation they may afford in China. They appear to have made an unsuccessful attempt to get the Chinese to ask for a Japanese loan (P.Z.3017/35)×, possibly in order to give them an excuse to deprive His Majesty's Government of the initiative, and have inspired comment in their press misrepresenting His Majesty's Government as negotiating with the Chinese behind the backs of the other Powers. Against the latter a protest has been made (P.Z.2696/35)×. The question of assisting China is likely to bring us up forcibly at some stage against the Japanese Monroe doctrine for East Asia.

× Peking tel[no] No 363 of 26th April.

× Tokyo tel[no] No 114 of 12th April.

5. The present position is that His Majesty's Government are going to send a financial adviser to the Peking Legation and have suggested to other Powers that they should do the same for their Legations (P.Z.2392/35)×. Apparently it is hoped some sort of joint expert investigation of China's situation might result from this procedure and in the meantime concrete proposals from China are not expected. The Chinese are however doubtful whether the situation will allow for the delay which this procedure involves (P.Z.2895/35)× and appear to want an immediate loan to provide temporary relief.

× F.O. tel[no] No 12 Jour of 2nd April.

× Peking tel[no] No 340 of 18th April.

6. The situation has a relevance to our Tibetan policy. Without British initiative it seems doubtful whether anything will be done to help China and therefore the Chinese Government are unlikely to take any action which they are aware would displease us. Hence, if

China takes any vigorous steps to increase her influence in Tibet, diplomatic action on behalf of Tibet by His Majesty's Government might be very effective.

Financial Secretary

For information.

HAF Rumbold

8. V. 25.

Seen. There is a possibility of the U.S. Government's silver policy accelerating China's difficulties.

J.T.P. Martin

13 May 25

F.
2909
1935

INDEXED

In any further communication on this subject, please quote
No. F 2626/513/10
and address—*not to any person by name*, but to—
"The Under-Secretary of State," Foreign Office, London, S.W. 1.

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1935

324 India

THE Under-Secretary of State for Foreign Affairs presents his compliments to the Under-Secretary of State for India, and, by direction of the Secretary of State, transmits herewith copies of the under-mentioned paper.

Foreign Office,
3rd May, 1935.

Pp 2313. 18/3

Reference to previous correspondence:

✓

Description of Enclosure.

Name and Date.	Subject.
From H.M. Ambassador at Tokyo. No 182 28th March	Sino-Japanese rapprochement.

ENCLOSURE IN WEEKLY LETTER
No. 19 - 9MAY 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

4 MAY 1935
INDIA OFFICE

Similar letter sent to C.O. W.O.
D.O. Admty.
Air Min.

14—6130 10950 (2)

5107
1935

COPY
(F 2626/555/10)
No. 182 (52/68/35)
Co[illegible] to Peking.

British Embassy,
TOKYO.
28th March, 1935.

Sir,

The movement towards a rapprochement between Japan and China has naturally given rise to much discussion in the Japanese Press, but few people with any experience of that Press would look to it for guidance. On the other hand one does find more serious reviews of current affairs in the weekly and monthly magazines, and as a guide to the way in which this idea of rapprochement is viewed from the Japanese side I enclose a resumé of four articles which have appeared in the past six weeks. The writers include Mr. Inahara, a director of the foreign affairs association of Japan. Dr. Royama, professor at the Imperial University, the Editorial Adviser of the "Asahi" - on the whole the least irresponsible paper in Japan - and Colonel Okido, Chief of the Manchuria and Mongolia section at Army Headquarters.

2. There is an underlying suspicion of Chinese "sincerity" in all these articles, but the general argument is that China has come to realise that America and the League of Nations are broken reeds to lean upon, that Japan, since the creation of Manchoukuo, is the dominating Power in the Far East, and that some sort of co-operation, or at least normal relations with Japan, is in her interest. The military writer emphasises the

communist/

The Right Honourable
Sir John Simon, G.C.S.I., K.C.V.O.,
etc., etc., etc.,

communist danger coming from Sinkiang, and the necessity of checking it before the Powers intervene. China should accept the neighbourly help of Japan in the economic sphere.

3. In the course of a conversation I had a few days ago with General Araki, he dismissed the idea of a real rapprochement between Japan and China as humbug until the Chinese fundamentally changed their attitude, and he saw no sign of this. He talked at length of the communist danger, but in the eyes of the General the villain of the world is and always will be Soviet Russia upon whose iniquities and general insincerity he is prepared to dilate ad nauseam. General Araki, in spite of his waning influence in the Councils of the State, is still the popular soldier to the majority of officers and there is not the slightest doubt that the General views a rapprochement with China with complete scepticism. He would like to see Great Britain and Japan agreed on a China policy. No other country matters in his opinion so far as China is concerned.

I have, etc.,

(Sd) R. H. Clive.

Inc. 6 F.O. Covering Letter d. 8/5/35. 327 India

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E.Z. 3181 1935

From CHINA.

Decypher. Sir A. Cadogan (Peking). May 7th 1935.

D. Wireless. May 7th 1935.

R. 7.30 p.m. May 7th 1935.

No.395.

^^^^^^^^^^^^^^^

Following received from Commercial Counsellor No.92 of May 4th.

Begins:

Addressed to Peking repeated to Mission Saving.

My telegram No.90.

Monnet has spoken to me several times on the telephone during past 24 hours about giving me some message for you. He came to see me this morning and said that message in question was in answer to yours to him and that it had been passed by Soong but was being temporarily held up by Kung. He would give it to me on Monday.

In the meantime he thought you might like to know that Suma had come to see him and had talked freely about the loan question evidently presuming that he knew all about it. Suma had repeated several times that Japan would participate with Great Britain, France and United States in a loan to China provided she were satisfied as to the purposes for which the money would be used and as to services of loan. When Monnet repeated what Suma had said to Soong and Kung they said they thought that Japanese were sincere in this statement.

ENCLOSURE IN WEEKLY LETTER
No. 20 16MAY 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

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F.O.
3191
1935

(F.2892/6/10).

To CHINA.

Cypher telegram to Sir A. Cadogan. (Peking).

Foreign Office. 7th May, 1935. 7.30.p.m.

No. 167.

---------oOo---------

3158 Your telegram No. 383 (of 3rd May: Chinese financial situation).

Commercial Counsellor may speak to Henchman as you suggest.

Please repeat to Tokyo.

Repeated to Washington No. 123 and Paris No. 173 Saving by bag.

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pp 3158.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

RECD. POL. DEPT.
8 MAY 1935
INDIA OFFICE

Foreign Office, S.W.1.

7 MAY 1935, 193~~5~~.

The Under-Secretary of State,

India Office.

8—8074 (4)

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3159
1935

From JAPAN.

Decypher. Sir R. Clive (Tokyo). 4th May, 1935.

D. 3.00 p.m. 4th May, 1935.

R. 9.45 a.m. 4th May, 1935.

No. 132.

.....

Confidential.

With reference to recent Peking telegram regarding Monnet and question of loan to China I spoke to my French colleague yesterday.

He confirms that Japanese Government still had the utmost suspicion of Monnet and his schemes although Monnet had greatly modified his previous anti-Japanese attitude.

Foreign Office spokesman a few days ago expressed to me his dislike of French intrusion into loan discussions without mentioning Monnet by name. He spoke of the consortium with undisguised objection.

I believe attitude of Japanese Government remains as indicated in my telegram No. 83. At the same time if British interests invite Japanese alone to join them in assisting China this might not be unwelcome to Japanese Government. Japanese Foreign Office take the view that British interests in China are on quite a different plane to those America enjoy and other countries.

3183.

ENCLOSURE IN WEEKLY LETTER
NO. 19 - 9MAY 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

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MP 3030. 2. 5.
Mr R

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

RECD. POL. DEPT.
8 MAY 1935
INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER
No. 19 - 9MAY 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

Foreign Office, S.W.1.

7 MAY 1935

The Under-Secretary of State,

India Office.

8—8074 (4)

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3158
1935

From CHINA.

Decypher. Sir A. Cadogan (Peking). 3rd May, 1935.

D. By wireless 3rd May, 1935.

R. 6.10 p.m. 3rd May, 1935.

No. 383.

.....

Following received from Commercial Counsellor No. 88 May 1st, begins:

Addressed to Peking, repeated to Mission Saving.

Your telegram No. 75.

I communicated your message to Monnet this morning and he made a note of it. He seemed to be nervous about the effect it might have on Kung and Soong, especially the former, observing that it was tantamount to saying that nothing could be done until British adviser at any rate arrived which at the best could not happen for a month from now. It may be that he is afraid it will drive the Chinese into making some arrangement with Japanese but he said nothing to this effect. He said he would if possible see Soong and Kung today to obtain their reactions and in that case would fly to Peking tomorrow as already arranged to see you. He seems to view financial situation at the moment with equanimity in view of existing co-operation between foreign and Chinese banks and their agreement not to export any silver for the present (see my telegram No. 75) but is afraid universal agreement, which depends largely on course of action taken by United States Government, may not last indefinitely.

2. Monnet is as you know in close touch with Henchman as well as Soong and evidently told the former about his conversations

conversations with you and that he was expecting a message from you. I have never mentioned to Henchman prospect of appointment of financial expert or possibility of international conference though I presume he knows all about these matters from Soong or Monnet. Is there any objection to my speaking of them to him?

3. In view of last sentence of Foreign Office telegram No. 155 it is slightly embarrassing that Monnet should have as it were, now become intermediary for Soong and that his views and proposals should apparently be so closely identified with those of Hongkong and Shanghai Bank though the message which I have just communicated to him under your instructions seems to leave little else to be said for the time being.

2965 A

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3158
1935

From CHINA.

Decode. Sir A.Cadogan (Peking).
3rd May, 1935.

D. (By Wireless) 3rd May, 1935.

R. 6.00 p.m. 3rd May, 1935.

No.383. (R).

xxxxxxxxxxx

Commercial Counsellor's telegram No.88.

Commercial Counsellor has telegraphed that Monnet has explained substance of your message to Kung and Sung but that he does not propose to come up for two or three days until he has had further talks with them.

As regards second paragraph of telegram under reference I should be grateful for instructions as to whether I may authorise George to inform Hen.... of the proposed appointment of Financial Expert and to speak to him in the sense of the second paragraph of my telegram No.338.

Addressed to Foreign Office No.383, repeated Saving to Tokyo and Mission.

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Immediate.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

REGD. POL. DEPT. 1 MAY 1935 INDIA OFFICE

Foreign Office,

29 APR 1935 193

ENCLOSURE IN WEEKLY LETTER S.W.1. NO. 18 = 2MAY 1935 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

The Under-Secretary of State,

India Office.

8—8074 (4)

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F.O.
3030
1935

FROM CHINA

Decypher. Sir A. Cadogan (Peking). 28th April, 1935.

D. (By Wireless) 29th April 1935.

R. 5.00 p.m. 29th April 1935.

No. 369.

"""""""""""""""""""""""""

Addressed to Commercial Counsellor, No. 75 of 28th April.

Foreign Office (?telegram 155).

If Monnet is still in Shanghai please inform him of first and second paragraphs.

You should add that His Majesty's Government evidently think it would be unwise for Chinese at the moment to make any proposal for a regular conference of experts. As regards any provisional or palliative measures it would seem the best to await, if possible, arrival of Financial Adviser or Advisers. If Chinese cannot wait a few days they must understand that any proposals that are put up must be put up on their own responsibility and would presumably have to warn other Governments. I could not myself express or even probably obtain an opinion on proposals that had not been communicated to other Governments especially before arrival of Financial Adviser.

Repeated to Mission and Foreign Office.

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P.Z. CONFIDENTIAL 3017 1935

Immediate.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
No. 118 - 2MAY 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

30 APR 1935
INDIA OFFICE

Foreign Office, **S.W.1.**

29 APR 1935, 193 .

The Under-Secretary of State,

India Office.

8—9572 (4)

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F.O. 3017 1935

FROM CHINA

Decypher. Sir A. Cadogan (Peking). 26th April 1935.

D. (By Wireless) 26th April 1935.

R. 6.00 p.m. 26th April 1935.

No. 363.

* *

Following received from Commercial Counsellor, addressed to Peking No. 81 of April 24th, repeated to Mission Saving.

My telegram No. 74.

I lunched with Monnet yesterday. He repeated to me roughly what he had told you and gave me to understand that you were consulting the Foreign Office on certain points and would probably send him some message through me.

He thought you might be interested to know following story he had heard from Minister of Finance since his return. The gist of it was that Suma pressed Kung last week to allow him to telegraph to Tokyo that China desired a loan from Japan. (grp.omtd.) said we could not agree to his doing this, saying, as he had previously told Suma, that Chinese Government would welcome Japanese participation in an international loan. Monnet was not sure from what Kung said whether the idea behind Suma's request was that Japanese Government might reply to any suggestions for international loan that Chinese Government had already approached them individually or whether Japanese Government desired an excuse for taking the lead in any question of an international loan.

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F.Z. 3017 1935

From CHINA.

Decode. Sir A. Cadogan (Peking). 27th April, 1935.

D. By wireless 27th April, 1935.

R. 5.30 p.m. 27th April, 1935.

No. 368. (R).

.....

My telegram No. 329.

United States Legation have told me that United States Treasury department are sending Professor Buck to China to observe monetary and financial conditions. Professor Buck was one of the foreign experts attached to Nanking University and several months ago was requested by Treasury department to return to the United States for consultation.

United States Legation state that Treasury department is also sending men to certain European countries for similar purposes and that despatch of Professor Buck to China has no reference or connexion with financial experts which I previously discussed with United States Minister as reported in paragraphs 3 and 4 of my telegram under reference.

Addressed to Foreign Office No. 368, repeated Saving to Commercial Counsellor, Tokyo and Mission.

Encl. to FO Covering Ltr. d/29/4/35

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To CHINA.

Cypher telegram to Sir A. Cadogan. (Peking).

Foreign Office. April 26th. 1935. 6.15.p.m.

No. 155.

pp 2994.

-----oOo-----

Your telegrams 338, 339, and Commercial Counsellor's telegram to you No. 74 (of April 18th/15th: Chinese financial situation).

1. The actual selection of the financial adviser to be sent out to you has not yet been made, but we are carefully considering names.

2. The other Governments have been fully informed of our views and intention; but we have as yet had no direct communication in return from them of their conclusions.

3. What you said to Monnet as regards a regular conference of financial representatives is entirely approved.

4. We still feel that concrete proposals even of a palliative character should await the result of the pending investigations if the situation permits. If, however, the Chinese Government feel that the situation calls for some interim proposal, the proper course is for them to put it forward on their own responsibility, and you should make it clear to Monnet that he must not expect you to express any views especially on tentative suggestions which have not been communicated to all the Governments concerned even if you were in a position to do so before the arrival of the financial adviser.

5. For your private information, Denys on behalf of Monnet has been enquiring in London as to prospects of placing a Chinese sterling loan. Also a Baron von Lustig, who purports to be authorised by Soong, has been enquiring as to issue of such a sterling loan. Both applicants have received a flat refusal and without reasons. Special care is desirable in any conversations you may have with Monnet at the present time.

Please repeat Saving to Tokyo.

Repeated to Washington No. 115 and (Saving) to Paris No. 169 (by bag).

ENCLOSURE IN WEEKLY LETTER No. 18 - 2MAY 1935 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

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P.Z. 2895 1935

From CHINA.

Decypher. Sir A. Cadogan (Peking) 18th April 1935.

D. (Wireless) 18th April 1935.

R. 6.30 p.m. 18th April 1935.

No. 339.

- - -

Commercial Counsellor's telegram No. 74 and my telegram No. 338.

Monnet at interview April 17th laid much stress on immediate necessity for "an injection of foreign capital" to restore confidence, extend credit facilities by the purchase of Chinese government bonds held as security by Chinese banks and enable business to be carried on. He made no mention of the amount or terms of such a loan except that it should be issued in sterling in Shanghai by foreign local interests. He emphasised view that such a loan must be regarded not as an isolated measure for temporary alleviation of financial situation at this moment but most necessary preliminary to and an integral part of such wider schemes of radical reform of currency system and economic structure of country as may eventually be decided upon as a result of international agreement.

Addressed to Foreign Office No. 339, April 18th, repeated saving to Tokyo, Mission and Commercial Counsellor.

Immediate.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

Foreign Office, S.W.1.

20 APR 1935 193 .

The Under-Secretary of State,

India Office.

8—8074 (4)

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P.Z.
2894
1935

NO DISTRIBUTION.

Decypher. Sir A. Cadogan (Peking),
17th April, 1935.

D. W/T 17th April, 1935.

R. 7.00 p.m. 17th April, 1935.

No. 332.

Local representative Chartered Bank of India, Australia and China informed me a few days ago that his bank in Tientsin had received reports that Chinese Government were about to impose an embargo on export of silver. I telegraphed to Acting Consul-General enquiring whether he could obtain any confirmation of this report. His reply is contained in my immediately following telegram.

Addressed to Foreign Office No. 332, repeated Saving to Tokyo, Mission and Commercial Counsellor.

P.Z.
2894
1935

NO DISTRIBUTION.

Decypher. Sir A. Cadogan (Peking).
17th April 1935.

D. (by wireless) 17th April 1935.

R. 7.00 p.m. 17th April 1935.

No.333.

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Following received from Commercial Counsellor No.75 April 17th begins:-

Addressed to Peking No.75 April 15th, repeated to Mission (Saving).

Your telegram No.65.

Report arose presumably from (grp. omtd.) several applications were made to Customs on April 12th for certain shipments of silver and permit to ship was delayed until they had been sent to Central bank to be passed by Minister of Finance. Permits to ship were afterwards granted. Largest shipment on that date was one of approximately 700,000 dollars by Japanese Bank to Kobe. I understand some sort of supervision by Ministry of Finance over applications to ship silver will be introduced which may amount to virtual embargo though according to today's press Minister of Finance has declared that there will be no actual embargo. This statement has helped to restore confidence and make exchange firmer.

2. Rise in price of silver due to United States Government's action has of course created renewed nervousness and uncertainty. Soong invited leading

foreign....

foreign bankers (including two Japanese) to lunch on April 14th and obtained from them assurance that they will co-operate with Chinese banks in endeavour not to embarrass the Government in the present situation and that they will for the time being make no shipments of silver and try to persuade smaller (grp. omitted) not to do so.

3. I learn confidentially from Customs that as it is now again profitable to export silver all coast ports have been re-instructed to use the utmost vigilance against export of such metal. It is said that Japanese authorities are hindering Customs search for silver leaving Shanhaikuan by train for places north and that negotiations are proceeding.

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P.Z.
2894
1935

From CHINA.

Decypher. Sir A. Cadogan (Peking). April 18th 1935.

D. Wireless. April 18th 1935.

R. 6.30 p.m. April 18th 1935.

No.338.

^^^^^^^^^^^^^^^^

2459

My telegram No.329.

Monsieur Monnet came to see me yesterday. He had had consultation with Dr. Kung and Mr. Soong in Shanghai. I gathered from him that they were both convinced of the necessity of following up what he called our initiative but hesitated to formulate concrete proposals. Their idea was to suggest a conference in Shanghai of financial representatives of interested governments either government officials or representatives of Central Banks.

I told Monsieur Monnet that some sort of meeting might in fact come about if governments adopted His Majesty's Government's suggestion that they should appoint experts to their Legation staffs in China but that from the very scanty information at my disposal it seemed that the Japanese were disinclined to adopt even this procedure. It seemed to me that the Japanese would be all the more opposed to a regular conference and if that were so Chinese might be well advised to defer making any formal proposal for a conference. Monsieur Monnet said that the Chinese would probably not propose anything until they heard from him.

May I be informed whether there are any developments in regard to proposal indicated in your telegram No.12 tour and whether you have obtained the views of the other governments? I should be glad also if you would instruct me if you have any advice that I should give Monsieur Monnet or any other action that I should take.

Addressed to Foreign Office No.338 of April 18th repeated Saving to Mission, Commercial Counsellor and Tokyo.

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Immediate.

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1. Copy to Finance Dept
2. Put by
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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
No. 17 25APR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

REGD. POL. DEPT.
24APR1935

Foreign Office, S.W.1.

23 APR 1935, 193 .

The Under-Secretary of State,

India Office.

8—8074 (4)

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P.Z.
2871
1935

From CHINA.

Decypher. Sir A. Cadogan, (Peking),
18th April, 1935.

D. W/T. 18th April, 1935.

R. 10.30 a.m. 19th April, 1935.

No.340.

-o-o-o-o-o-o-o-o-o-

IMPORTANT.

Following received from Commercial Counsellor.

Addressed to Peking No.74, April 15th, repeated to Mission Saving.

After long talks with Henchman and further discussions with Soong and Minister of Finance during week-end, Monnet tells me that he shares their view that situation is so uncertain that it may break before any relief can be forthcoming from suggested international conference of experts which may drag on into the autumn and that in any case something must be done to ease matters if conference is to be held in a suitable atmosphere of calm. I understand that remedy tentatively proposed is a loan of £10,000,000 to be issued by foreign banks in Shanghai (with Japanese participating if they want) and to be so arranged that it can be merged into any more fundamental solution that may be decided on later. Monnet is going to explain to you (presumably on Soong's behalf) and to try and find out how you view suggestion of some such temporary palliative.

P.Z. 2791/35

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Financial Secretary

for information.

H.A.F. Rumbold

24.4.35

F.
2653
1935

Seen with thanks,

J.H.P. Martin

25.4.35

wcc

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 17 25 APR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE.

Foreign Office, S.W.1.

18 APR 1935, 193 .

The Under-Secretary of State,

India Office.

8—9572 (4)

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F.Z. 2791 1935

From CHINA.

Decypher. Sir A.Cadogan (Peking). 16th April, 1935.

D. (By Wireless) 16th April, 1935.

R. 5.40 p.m. 16th April, 1935.

No.331.

XXXXXXXXXXXXXXXX

Addressed to Commercial Counsellor telegram No.68 of 16th April.

Foreign Office telegram No.142.

2696

I am writing private letter to Minister of Finance copy of which is being sent you replying that in the circumstances His Majesty's Government in the United Kingdom do not wish to be shown copy of preliminary draft.

2. Unless he returns to the charge I do not propose to reply to Soong with regard to Salter. Should he however raise question again with you you are authorised to inform him that His Majesty's Government in the United Kingdom do not feel they are in a position to advise Chinese government as to whom they should engage as experts.

Repeated to Mission, Foreign Office, Saving to Tokyo.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
No. 17 25 APR 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Foreign Office,

17 APR 1935, 193 .

REGD. POL. DEPT.
18 APR 1935
INDIA OFFICE

The Under-Secretary of State,

8—8074 (4)

India Office.

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F.Z. 2759 1935

From CHINA.

Decypher. Sir A. Cadogan (Peking). 16th April, 1935.

D. By wireless 16th April, 1935.

R. 5.40 p.m. 16th April, 1935.

No. 329.

.....

2392 Your telegram 12 tour.

I have informed Chinese Government and my Japanese and United States colleagues. I have not yet been able to see French Minister or Chargé d'Affaires but will communicate with French Legation. I mentioned the matter incidentally to Italian Ambassador.

My Japanese colleague told me from message telegraphed by Japanese Ambassador in London his Government had gained rather different impression of scope and purpose of His Majesty's Government's proposal: he said it seemed that His Majesty's Government were sending out experts to Shanghai to consult on the situation and that in the view of his Government this would draw too much attention to the matter and unduly raise hopes of Chinese Government. His Majesty's Government were therefore opposed to any such appointment. I gave him the gist of your telegram No. 12 tour and he said that that put the matter in a rather different light and he would like to inform his Government of the message which I had received and to this I agreed.

My United States colleague tells me that United States Embassy in London reported that His Majesty's Government proposed to appoint a financial expert to proceed to Shanghai and suggested that the other interested Governments should make similar

similar appointments: that these experts should meet and discuss financial situation in Shanghai and should also get in touch with Chinese bankers and others: the idea being that they might be able to bring about a Sino-Japanese rapprochement on financial and economic plane without trespassing on political grounds. He had been asked by his Government for his views and had replied that he feared that such procedure might appear to be committing Government to action. He added that State Department were instructing United States Ambassador in London to suggest that it might be difficult for experts with such mandate to avoid touching on political matters.

I told United States Minister of message contained in your telegram No. 12 tour and gave him leave to inform his Government of what I had received.

Addressed to Foreign Office telegram 329 of 16th April, repeated to Commercial Counsellor, Tokyo and Mission.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 16 18 APR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

RECD. POL. DEPT.
18 APR 1935
INDIA OFFICE

Foreign Office,

13 APR 1935, 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

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F.O. 2696 1935

From JAPAN.

Decode. Sir R. Clive (Tokyo). April 12th 1935.

D. 5.40 p.m. April 12th 1935.

R. 2.5 p.m. April 12th 1935.

No.114. (R).

^^^^^^^^^^^^^^^^

My immediately preceding telegram.

I then referred to outburst of Foreign Office spokesman and read to His Excellency your telegram No.66 and relevant parts of Sir A. Cadogan's telegram No.36.

I said that spokesman appeared to have based his remarks on press from Shanghai. First of all it was absurd to charge His Majesty's Government with a desire to mediate between Japan and China because individual peers no doubt foolishly although with the best intentions had suggested this. The Under Secretary of State's reply had made position perfectly clear. Secondly when he said he did not know what was the policy of His Majesty's Government he ought to have known. I had told His Excellency all I knew and Sir A. Cadogan had been equally frank with Japanese Minister and Consul General.

After all what was the position? The British had a far bigger financial interest in China than any other country. We could not afford to see a financial collapse without an effort to save it. We believed

that

that it was equally in the Japanese interests to avoid such a collapse. There was no idea of making a loan behind the backs of the Japanese. We knew that T.V. Soong had formerly had the reputation of being anti-Japanese. But to (? grp. cmtd.) Sir A. Cadogan as Japanese press had done of getting Soong appointed President of Bank of China and then intriguing with him against Nanking government was ridiculous. If His Majesty's Minister had seen Soong it was no doubt because the latter was able to (? grp. cmtd.). Present difficulties were not political but financial and economic.

His Excellency endeavoured to ~~exercise~~ excuse Amau on the ground that he was cross examined daily by 25 journalists. I said that he had all my sympathy but in this case I could not acquit him of deliberate misrepresentation. Moreover expressions he had used were so offensive to my country that I had not liked to telegraph them to you. He asked what he had actually said and I gave him a statement.

Addressed to Foreign Office No.114, repeated to Peking.

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P.Z. 2696 1935

From JAPAN.

Decode. Sir R. Clive (Tokyo) 12th April 1935.

D. 4.35 p,m. 12th April 1935.

R. 12.00 p.m. 12th April 1935.

No. 115. (R).

- - -

My immediately preceding telegram, (not repeated to Washington).

His Excellency then went on to talk of China and said that Japanese Minister had told Chinese government that it was for China to produce concrete proposals. I interrupted to say that was exactly what Sir A. Cadogan had done under your instructions. His Excellency said he had no faith in a loan by itself. China must show signs of an effort to help herself. Then but not till then could she reasonably invoke help from outside. He hoped to discuss question with me again. I said I was very glad to hear His Excellency's views and I should be glad to have assurance that Japanese government had no suspicion of British policy. This His Excellency willingly gave me.

Addressed to Foreign Office telegram No. 115, repeated to Peking and Washington.

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P.Z.
2696
1935

From JAPAN.

Decypher. Sir R. Clive, (Tokyo), 12th April, 1935.

D. 7.45 p.m. 12th April, 1935.

R. 1.00 p.m. 12th April, 1935.

No.116.

-o-o-o-o-o-o-o-

My immediately preceding telegram.

Reference was made in our conversation to latest increase in American price of silver. Minister for Foreign Affairs expressed sympathy with the Chinese. He said member of American Industrial Mission had spoken vaguely of America possibly helping China with a loan but I had the impression that His Excellency had little confidence in competence of any member of present mission to discuss the question intelligently.

I learn privately that Americans have given considerable offence by the manner in which they introduced Japan oil question into that discussion.

Addressed to Foreign Office No.116, repeated to Washington and Peking, Saving.

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P.Z. 2696 1935

To CHINA.

(F 2383/6/10)

Cypher telegram to Sir A. Cadogan (Peking)

Foreign Office, 12th April 1935, 5.30 p.m.

No. 142.

- - -

2577

Shanghai telegram No. 2 (of April 8th; Financial situation in China).

It is important that the Chinese government should shoulder their own responsibilities and not manoeuvre us into a false position. Whether or not they decide to engage Salter they should not in either event be in a position to say that they had acted on our advice. For your personal information we should prefer not to see Salter brought into this business.

As regards the proposals you should abstain from action which would enable it to be said that they had been drawn up in consultation with you.

It is therefore undesirable for you to be shewn any draft; and indeed as you know we should prefer that concrete proposals should be the result of the pending investigations and not precede them.

Enquiries regarding the Japanese attitude should of course be made direct and you will no doubt avoid being used as a channel.

Repeated to Tokyo No. 72 and (saving to Paris No. 149 and Washington No. 12.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 16 18 APR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

POLITICAL & SECRET DEPT.
12 APR 1935
INDIA OFFICE

Foreign Office,

11 APR 1935 , 193 .

The Under-Secretary of State,

India Office.

8—8074 (4)

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2577
1935

From CHINA.

Decypher. Sir J. Brenan (Shanghai) 8th April 1935.

D. (Wireless) 9th April 1935.

R. 5.10 p.m. 9th April 1935.

No. 2.

- - -

Following from His Majesty's Minister.

1002 Your telegram No. 15 Tour.

When I saw Soong on April 3rd he was obviously toying with the idea of putting up a suggestion for an international financial conference of experts to be held in Shanghai as a preferable alternative to his government having to make any concrete proposals but said that he must first consult Minister for Foreign Affairs and Minister of Finance who would be here over the week-end. He mentioned that he was thinking of asking Salter to come out as an expert on behalf of Chinese government and asked if I would "recommend" him. He evidently wanted to know whether Salter would be persona grata to His Majesty's Government. I promised I would try to obtain your views.

2183 2. On receipt of your telegram No. 12 Tour I communicated substance to Soong and when I saw him again to-day he indicated that no concrete proposals would be forthcoming and that loan question would be left in abeyance pending informal consultation with our own and any other experts that may be appointed. It seems very possible that there is opposition within the government to any scheme for an international loan or that Soong is contemplating some

other

other measure for dealing with the situation. He is constantly enquiring whether we know anything further of Japanese attitude. He did not mention Salter again to-day.

3. After leaving Soong to-day I called on Minister of Finance at his request. To my surprise after what Soong had said he told me he had prepared a memorandum of suggestions for remedying the financial situation (he gave me no indication upon what lines) on which he would like to have my comments. I replied that I could only consult you in the event of his making any communication to me and reminded him of views expressed in your telegram No. 6 tour as to communication to other Powers. He said that memorandum was only a tentative draft which would eventually be communicated to all the interested Powers but in the first instance he would like to know if we had any additions or amendments to suggest. As he pressed the matter I promised to refer the point to you though I felt bound to warn him that it was unlikely that you would be able to agree to procedure suggested. He also pressed me for information as to Japanese government's attitude. I promised that I would give him any information I could. He enquired what we should do if the Japanese opposed any loan proposals. I gave him a non-committal reply. (Ends)

Addressed to Foreign Office No. 2 of April 8th, repeated to Peking and Saving to Tokyo.

Copied to Mission and Commercial Counsellor.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 16 18 APR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

11 APR 1935
INDIA OFFICE

Foreign Office,

10 APR 1935, 193 .

The Under-Secretary of State,

8—8074 (4) **India Office.**

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2556
1935

(F.2271/553/10).

To JAPAN.

Code telegram to Sir R. Clive, (Tokyo),

Foreign Office, 9th April, 1935, 6.05 p.m.

No.66. (R).

-o-o-o-o-o-o-o-

2459.

Your telegram No.106 (of April 5th: Japanese Foreign Office spokesman's comment on House of Lords debate).

You should certainly see Minister for Foreign Affairs. We are entitled to resent spokesman's comments. Idea of mediation was mooted by unofficial speakers and was opposed by the Parliamentary Under Secretary who however naturally indicated that if the two parties should desire it His Majesty's Government would be ready to assist if possible in promoting an agreement. It is absurd to credit us with any wish to force ourselves in.

Suspicion of our proceedings in regard to Chinese financial situation is equally unjustified. We have been completely frank with Japanese Government and have counselled frankness to the Chinese. Conversations between His Majesty's Minister and Soong were inevitable since Soong had been specifically appointed by the Chinese Government to deal with question of a possible foreign loan.

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2556
1935

From CHINA.

Decode. Sir A. Cadogan. (Nanking). April 9th. 1935.

D. (by wireless) April 9th. 1935.

R. 6.0.p.m. April 9th. 1935.

No. 36. (R). TOUR.

-------oOo-------

Tokyo No. 106 to Foreign Office.

Suma came to see me yesterday and I took the opportunity of referring to remarks of Japanese Foreign Office spokesman as reported by His Majesty's Ambassador, Tokyo.

I observed His Majesty's Government when approached by Chinese Government had decided that the situation called for full and frank consultation with other interested governments: they had accordingly kept those governments fully informed of all that had passed and intended to continue along that line. I myself had been perfectly frank with him and the Japanese Minister. But it would not make things any easier if suspicion were to be cast on our action and motives in official quarters in Tokyo.

Suma admitted I had been frank with him and that his Minister was appreciative of information which I had supplied him and promised to telegraph to Tokyo.

I referred also to article in Asahi of which Reuter had been good enough to give me a summary: it was deplorable that such nonsense could be published but perhaps the Japanese Government could not restrain the press any more than we could. (I do not know whether this is the case but of course Suma agreed that it was).

Addressed to Foreign Office No. 36; repeated to Tokyo, Saving to Peking.

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P. Z.
2518
1935

Immediate.

Copyd & sent Cadogan's tel[no] No 29 Tour to Guiana & available a Pur-by pp 2433. 10/MR 9/4 not available

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 15 11 APR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

MAIL ROOM
9 APR 1935
INDIA OFFICE

Foreign Office,

8 APR 1935, 193 .

The Under-Secretary of State,

India Office.

8—9572 (4)

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F.O. 2518 1935

To CHINA.

Code telegram to Sir A. Cadogan (Nanking)

Foreign Office, 5th April 1935, 7.30 p.m.

No. 15. (R) Tour.

- - -

In case you are uncertain of position as we view it I would explain that effect of my telegrams Nos. 6 and 12 Tour is that we do not now expect concrete proposals from Chinese government and that in the absence of further developments progress must wait till financial expert to be added to your staff and perhaps to other legations shall have examined technical position.

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F.O.
2518
1935

FROM CHINA

Decode. Sir A. Cadogan (Shanghai). 5th April, 1935.

D. (By Wireless) 5th April 1935.

R. 6.10 p.m. 6th April 1935.

No. 29 (Tour) (R).

Commercial Counsellor's telegrom No. 20 to His Majesty's Minister.

Commercial Counsellor reports at meeting of shareholders of Bank of China March 30th it was resolved to increase total capital of the Bank to $40,000,000 shared equally between Government and private shareholders which means increase of existing Government shares of $5,000,000 by an additional $15,000,000. This arrangement was in the nature of a compromise. Members of this Board of Directors have increased from 15 to 21 of whom 9 are Government appointees. From members of this Board a Standing Committee of 7 Managing Directors has been appoined of whom 4 are Government nominees. One of the latter is T.V. Soong who has been appointed by the Minister of Finance to be Chairman of the Board of Directors while another Sung Han-chang Manager of Shanghai branch from 1911 to 1927 has been appointed General Manager of the Bank. Latter appointment has done something to restore confidence as though now old he has reputation of being a conservative banker. He is however likely to be figure head under Soong. It is uncertain whether Chang Chi-aao will take up his new appointment as Deputy Governor of Central Bank.

2.....

2. Assumption of effective Government control over leading banks has created considerable misgiving in view of general lack of confidence in administration and it is felt too much now depends on Soong. Fears have been freely expressed that it will quickly lead to measures of inflation or devaluation. It seems unlikely however that measures of this nature will materialise for the moment though Government are now in a stronger position to overcome opposition to any scheme they may seek to enforce. Soong issued statement April 2nd saying that he had assured Government that there would be no inflation of currency which has contributed to a restoration of confidence. Withdrawals of deposits from Bank of China have occurred to some extent since change in the constitution of the bank but mainly to other Chinese banks.

3. Exact purposes for which new $100,000,000 bond issue will be employed are still obscure. Regulations published in Government Gazette state that issue will be secured on "newly increased customs revenues".

Addressed to Foreign Office telegram No.29 Tour, repeated to Peking, Mission and Commercial Counsellor.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 15 11 APR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

Foreign Office,

6 APR 1935 , 193 .

The Under-Secretary of State,

India Office.

8—8074 (4)

[This Document is the Property of His Britannic Majesty's Government, and should be returned to the Foreign Office if not required for official use.]

F.O. 2459 1935

From JAPAN.

Decode. Sir R. Clive, (Tokyo.) 5th April, 1935.

D. 8.25 p.m. 5th April, 1935.

R. 2.00 p.m. 5th April, 1935.

No. 106. (R)

House of Lords debate on the Far East provoked outburst from the spokesman to-day. He scorned the idea of British mediation and displayed suspicion of Sir A. Cadogan's negotiations especially with T.V. Soong.

Regarding press report that His Majesty's Government awaited Japan's reply, he said that Japan would discuss any proposal made but had none to offer.

Article in "Asahi" which has some appearance of official inspiration states that Japan cannot recognise British mediation in East Asia problems and is determined to act independently, nor can she co-operate on equal footing with Great Britain and United States in China. Co-operation can only be considered when Japan's leadership is recognised. Japan is therefore watching carefully Great Britain's China policy.

Addressed to Foreign Office, Telegram No. 106; repeated to Peking telegram No. 19.

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E. A.
2459
1935

From JAPAN.

Decypher. Sir R. Clive, (Tokyo.) 5th April, 1935.

D. 8.25 p.m. 5th April, 1935.

R. 2.00 p.m. 5th April, 1935.

No. 107.

My telegram No. 106.

I shall take an early opportunity of asking Minister for Foreign Affairs about Foreign Office spokesman's latest remarks but it may be difficult to see him for a few days as the Emperor of Manchukuo arrives tomorrow on a nine day visit to Tokyo. Minister for Foreign Affairs is determined to keep in with the military who are equally suspicious of rapprochement policy and international loan. One explanation is that spokesman is playing up to the military on behalf of Minister for Foreign Affairs.

Addressed to the Foreign Office No. 107; repeated to Peking No. 20.

P.Z. 2433
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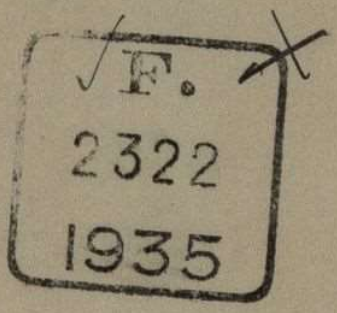
1935
9/4

Financial Secretary

for information.

HAF Rumbold
8.4.35.



Thank you
J.H. Thomas
8.4.35

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Times
6th April 35

BRITISH POLICY IN CHINA

JAPANESE IRRITATION

FOREIGN OFFICE AND LORDS' DEBATE

FROM OUR OWN CORRESPONDENT

TOKYO, APRIL 5

The Foreign Office spokesman to-day referred to British activities in China in terms which, besides displaying irritation at what is regarded as the patronizing attitude shown in the debate in the House of Lords on Wednesday, left no doubt of Japan's displeasure.

Lord Peel's suggestion that Great Britain should offer to mediate evoked from the spokesman the observation that Great Britain seemed to think she ruled all the waves, including those of the China Sea. Between China and Japan there was nothing to mediate about. China, which had deviated from Sun Yat-sen's policy of cultivating friendship with Japan, was returning to that policy, and if Great Britain wished to promote a Chinese-Japanese *détente* she would only do nothing.

Referring to the negotiations of Sir Alexander Cadogan, the British Minister in Peking—concerning which the Japanese newspapers are publishing numerous tendentious dispatches—the spokesman complained that Japan did not know Britain's real attitude. Japan understood that Britain disapproved of an international loan, but the Press reported that Sir Alexander Cadogan and Mr. T. V. Soong were negotiating a loan. Any such loan would be a matter between Great Britain and China only. If Britain sent investigators to China that also would be a purely British affair. "Britain (said the spokesman) is dancing as well as piping in China."

The *Asahi* this morning shows how the objections of the Foreign Office to loans which support any Chinese faction apply to the transactions Sir Alexander Cadogan is believed here to be negotiating. It declares that Sir Alexander is scheming with Mr. Kung (the Chinese Finance Minister) and Mr. Soong against General Chiang Kai-shek and others who advocate cooperation with Japan.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 15 11 APR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

6 APR 1935
INDIA OFFICE

Foreign Office,

5 - APR 1935 , 193 .

The Under-Secretary of State,

India Office.

8—8074 (4)

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F. O.
2433
1935

From CHINA.

Decode. Sir A. Cadogan (Shanghai). 4th April, 1935.

D. By wireless 4th April, 1935.

R. 4.30 p.m. 4th April, 1935.

No. 27 TOUR (R).

.....

2214

Your telegram 8 tour.

I saw the Italian Ambassador yesterday and carried out your instructions. He said he had been kept informed by Chinese Government but was grateful for what I had to tell him.

2215.

I have also acted on your telegram No. 6.

Addressed to Foreign Office, repeated to Peking, Mission and Commercial Counsellor.

ENDORSED FILE COPY 378 India

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P.Z. 2392 1935

From CHINA.

Decypher. Mr. Behrens (Peking), 2nd April, 1935.

D. W/T 2nd April, 1935.

R. 4.50 p.m. 2nd April, 1935.

No. 302.

P2492/35

pp 2330.

Following received from Commercial Counsellor addressed to His Majesty's Minister, Nanking, No. 20, March 30th. Repeated to Peking.

Your telegram No. 18 Tour to Foreign Office.

There now appears to be little doubt that new bond issue is part of the policy to give government a controlling interest in the three leading banks, particularly Bank of China and Bank of Communications with a view to their eventual nationalisation. It is reported Soong who is mainly responsible for this policy will displace Li Ming as Chairman of Bank of China and will probably also take Chie Chia-ao's place as general manager of that Bank the latter having already accepted promotion to post of deputy Governor of the Central Bank. K.P. Chen is said to have also been offered post of general manager of Bank of China but to have refused it out of loyalty to his friends in that Bank. The names of 15 new directors of Central Bank have been announced including Soong and his brother. An important meeting of the shareholders of Bank of China is to be held this afternoon and there may be opposition to this policy which is designed to rob the Bank of its independence.

2. Published regulations for new bond issue state that it is repayable in 10 years, is secured on customs revenue though I am told that customs have not yet received instructions to this effect.

ENCLOSURE IN WEEKLY LETTER NO. 15 11 APR 1935 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

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P.Z. 2392 1935

P.Z. 2391 1935

(F.1888/6/10).

To CHINA.

Code telegram to Sir A. Cadogan. Nanking (via Peking).

Foreign Office. 2nd April, 1935. 7.00.p.m.

No. 12. (R). TOUR.

--------oOo--------

2215

My telegram No. 6 Tour (of 23rd March: Chinese financial situation).

In view of the highly technical aspects of the problems which you will from now on for some months be discussing, it has been decided that you should be provided with expert financial advice.

Please inform Chinese Government that a financial expert will be joining your staff. Name of person selected and date of his expected arrival will be communicated to you as soon as possible.

You should also inform your interested colleagues.

This decision and the reasons for it have been confidentially explained to the United States, Japanese and French representatives in London so that they could inform their Governments and recommend to them similar action.

Please repeat Saving to Tokyo.

Repeated to Washington No. 83 and Paris (Saving) No. 134.

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P.Z. 2330 1935

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Parly Ques

pp 2215.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
No. 14 - 4 APR 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

1 APR 1935
INDIA OFFICE

Foreign Office,

29 MAR 1935, 193 .

The Under-Secretary of State,

India Office.

8—9572 (4)

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2330
1935

FROM CHINA

Decode. Sir A. Cadogan (Nanking).
27th March 1935.

D. (By Wireless) 27th March 1935.

R. 7.00 p.m. 27th March 1935.

No. 18. (Tour. (R).

On March 20th central political council approved issue of bonds by Ministry of Finance to an extent of dollars 100 million. Regulations governing issue are I understand still under discussion; but it appears capital of three leading Chinese banks is to be increased and that dollars 30 million is to go to Central Bank, dollars 25 million to Bank of China, and dollars 10 million to Bank of Communications.

On March 24th Sung sent his secretary to explain to acting Commercial Counsellor that there has been much misunderstanding about this new issue. It had been wrongly stated on the one hand that issue represented some kind of inflation or backing of an increased note issue and on the other hand that result of it would be still further to freeze assets of Banks in question. Neither was the case. Purpose of it was rather to strengthen position of these Banks and to make them better able to support the market in present crisis. It was not intended for any kind of currency or credit inflation. Fact that issue had been described as 24 years (1935) currency loan had still further increased this misapprehension.

Mr.....

Mr. George is of the opinion that real purpose of issue is to strengthen government control of the three Banks in question. Sung's secretary had also seen local manager of Hongkong and Shanghai Bank who felt that issue might be misrepresented in home newspapers and cause bad impression in London seeing that one of the uses of new loan in proposals recently put forward by Sung was retirement of a part of existing loan issue.

Addressed to Foreign Office telegram No. 18 Tour, repeated to Peking, Commercial Counsellor Saving.

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Immediate.

P.Z. 2214 Yes 1935

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 14 - 4 APR 1935
FROM ... AND
SECRETARIAT, INDIA OFFICE

Foreign Office,

27 MAR 1935, 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

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F.O. 2214 1935

(F.1909/6/10).

To CHINA.

Cypher telegram to Sir A. Cadogan, (Nanking),

Foreign Office, 26th March, 1935, 11.00 p.m.

No.8. Tour.

-o-o-o-o-o-o-o-o-o-

Your telegram No.17 Tour (of March 22nd; Chinese silver situation).

You should keep your Italian colleague generally informed of action taken and of future developments but you should not encourage the idea that active participation of his Government is expected.

Repeatedto Tokyo No.58, Washington No.78, Paris No. 124 Saving and Rome No.41 Saving.

P.Z 2215 385
35

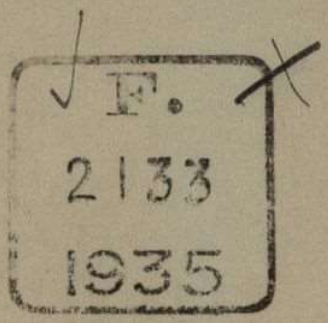
Parks
1935
1/4

Financial Secretary

For information.

WAF Rumbold

29.3.35.



Seen with thanks.

1/4/35

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P.Z. 2215 1935

Immediate.

dwR ? Pol

Yes Bna

1P 2014.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
No. 14 - 4 APR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

Foreign Office,

25 MAR 1935

, 193 .

26 MAR 1935
INDIA OFFICE

The Under-Secretary of State,

India Office.

8—10687 (4)

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2215
1935

(F.1888/6/10). To CHINA.

Cypher telegram to Sir A. Cadogan (Nanking).

Foreign Office, March 23rd 1935. 7.00 p.m.

No.6. Tour.

^^^^^^^^^^^^^^^^

Your telegram No.15 tour (of March 20th. China's silver situation).

I concur in view expressed in paragraph 2. You should explain to the Chinese government that in our opinion it is of the greatest importance that the whole matter should be dealt with on the basis of complete frankness between all the interested governments, and you should suggest to them as a first step that they should communicate to the other interested Powers the tencur of their reply to our communication as contained in your telegram No.12 tour and that they should request the views of those Powers as to how best the discussions that are contemplated could be facilitated. You should press for this communication to be made immediately as it is important that you should as soon as possible keep your colleagues informed of progress of discussions as well as of action taken on these instructions.

2. You should further explain that it is very desirable that all your discussions should be conducted on the understanding that they will be communicated fully and frankly to your interested colleagues. T.V. Soong's stipulation for secrecy in paragraph 4 of your telegram No.9 tour though reasonable in the particular

particular case is embarrassing. It would be better therefore if the Chinese Government would abstain from raising at this stage any question of linking their currency with any external standard. Both secrecy and speed are essential to the success of such an operation which could not in any case be carried out without prior expert investigation on the spot. Further instructions will follow.

Repeated to Washington No. 69, Tokyo No. 54 and Paris No. 112 Saving.

Times
22nd March '35

389 Pur-by with bps about financial help for China

NEW CHINESE LOAN

BRITAIN AND FINANCIAL HELP

FROM OUR OWN CORRESPONDENT

SHANGHAI, MARCH 21

The Government have approved the flotation of bonds to the value of $100,000,000, secured by the consolidation tax. The Finance Minister, Mr. H. H. Kung, states that owing to the depressed condition of the market numerous industrial and business concerns have approached the banks for loans and advances. The purpose of the issue is to strengthen the capital structure of the three principal Chinese banks in order to increase their effectiveness in helping the market.

Mr. Kung also stated that the British Government had inquired about the financial situation and expressed their willingness to cooperate with other interested Powers in giving assistance. The Government naturally welcome such action and have discussed the matter with the British Minister, Sir A. Cadogan, but no definite plan has yet been formulated.

India (Allotments) Finance 390

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1935

Part by 10 MR

£ 19,225 in debt. 28/3

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

Jacomb Political and Secret Dept

MAILS BRANCH
26 MAR 1935
INDIA OFFICE

Foreign Office,

32 MAR 1935 , 193 .

The Under-Secretary of State,

India Office.

8—9572 (4)

ENCLOSURE IN WEEKLY LETTER
NO. 13 28MAR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

1 Aff.

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F. 2036 1935

2183 1935

From CHINA.

Decode. Sir A. Cadogan, (Nanking),
22nd March, 1935.

D. W/T. 22nd March, 1935.

R. 5.00 p.m. 22nd March, 1935.

No.17. (R).
Tour.

-o-o-o-o-o-o-o-

My telegram No.15.

Japanese Consul-General informs me he has received from Waichiaopu aide-memoire informing him of exchange of communications between His Majesty's Government and Chinese Government relative to financial situation and stating that this information was being given simultaneously not only to United States and French but also to Italian Government.

Addressed to Foreign Office No.17, repeated to Peking, Commercial Counsellor and Tokyo Saving.

ENCLOSURE IN WEEKLY LETTER
NO. 13 28MAR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

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2183
1935

From JAPAN.

Decode. Sir R. Clive (Tokyo). March 22nd 1935.

D. 10.10 p.m. March 22nd 1935.

R. 4.30 p.m. March 22nd 1935.

No.83. (R).

ENCLOSURE IN WEEKLY LETTER
NO. 13 28 MAR 1935
FROM SECRETARY, POL. AND
SECRET DEPT. INDIA OFFICE

My telegram No.74 last paragraph and my telegram No.75 first paragraph.

Yesterday Mr. Kadono called on me at his request. Commercial Counsellor was present. He said particularly in view of questions which would certainly be asked by American Trade Mission to Japan and China due early next month he and some of his colleagues in banking and industry had called on Minister for Foreign Affairs to enquire as to Japanese government's attitude to loan policy in China. Minister for Foreign Affairs told them of my démarche and expressed great regret at press publicity which had caused misunderstanding of His Majesty's Government's attitude. His Excellency in the presence of Mr. Amau said that he was not opposed to loans by other Powers. Mr. Kadono then told us that he and his colleagues would be glad to see others lending to China but they themselves would not consider it safe investment even if they had no opposition. Furthermore they considered it was useless lending money to China unless lender had complete control of expenditure.

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2183
1935

x
AMENDED COPY.

From JAPAN.

Decypher. Sir R. Clive. (Tokyo).
22nd March. 1935.

D. 10.10.p.m. 22nd March, 1935.

R. 2.50.p.m. 22nd March, 1935.

No. 84.

---------oOo---------

My immediately preceding telegram.

Both (? gr.omit.) and I had the impression that visit of Kadono was made at the instance of the Minister for Foreign Affairs who used this indirect method to comply with his promise to communicate views of Japanese Government. We interpret this message to mean that (1) Minister for Foreign Affairs himself was not opposed to x x the Powers assisting China, (2) that Amau statement did not mean what it appears to imply, (3) that Japanese bankers did not favour loan without adequate security and control over expenditure.

ENCLOSURE IN WEEKLY LETTER
NO. 13 28MAR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

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2 Spaces of encl:

Immediate. **CONFIDENTIAL**

2193
1935

Finance Dept.

J 1947 in debt.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

Transfer to Political Dept 26/3

RECD. POL. DEPT.
23 MAR 1935
ENCLOSURE IN WEEKLY LETTER
No. 13 28 MAR 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Foreign Office,

22 MAR 1935

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The Under-Secretary of State,

India Office.

8—9572 (4)

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F. 1975 1935

2183 1935

From CHINA.

Decypher. Sir A. Cadogan (Nanking) 20th March 1935.

D. (Wireless) 21st March 1935.

R. 4.10 p.m. 21st March 1935.

No. 15. Tour.

- - -

My telegram No. 12.

Minister of Finance told me yesterday evening that Chinese government would shortly give us further reply containing concrete proposals. He spoke vaguely of currency reform but did not commit himself to details.

2. He said he would like to have benefit of advice of His Majesty's Government in formulating plans. I observed that as I understand the situation, His Majesty's Government would now feel bound to communicate to other governments concerned any suggestions received from Chinese government and might consider they were debarred from discussion with Chinese government on basis that other governments were not to be informed of what occurred.

3. I do not know what your views on this point would be. I assume that any actual proposals formally put forward by Chinese government would have to be communicated to other governments but would His Majesty's Government consider it possible to have confidential exchange of views with Chinese government, if latter desire it, with object of putting into shape proposals for subsequent discussion with other governments? It seems to me that it would commit us to some share of responsibility for proposals and to that extent limit our freedom in subsequent discussion.

Addressed to Foreign Office No. 15 Tour of March 20th, repeated to Peking, Commercial Counsellor and Tokyo Saving.

ENCLOSURE IN [illegible] LETTER No. 13 28 MAR 1935 FROM SECRETARY, [illegible] AND SECRET DEPT. INDIA OFFICE

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Part 2

Parts (Secs. Jap. relations file)

F.O. 2002 1935

From CHINA.

Decypher. Sir A. Cadogan. (Nanking).
March 16th. 1935.

D. (by wireless) March 18th. 1935.

R. 5.15.p.m. March 18th. 1935.

No. 9. TOUR.

-----oOo-----

My telegram No. 5 (Tour).

I saw Soong in Shanghai yesterday and discussed with him at length question of financial assistance to China.

2. After expressing great appreciation of step taken by His Majesty's Government he went on to give me various reasons for suspecting future policy of Japan towards China especially in the north. He thought Japan might welcome financial breakdown in this country as an excuse for various forms of intervention under the guise of protecting her commercial and industrial interests. Though Japanese Government might be unwilling openly to oppose joint financial assistance they would count on negotiations being protracted for many months which would give them the opportunity of obstructing. One of their arguments against joint assistance would be that it would entail international control of China. He did not think they could possibly offer direct financial assistance themselves or that they had any intention of attempting to do so.

3. I used much the same language in reply as I had previously done to Minister for Foreign Affairs and pointed out that since His Majesty's Government were convinced that they could not follow a policy of isolated action

without.....

without arousing suspicion it would be better if Chinese Government in their first reply acquiesced without reserve in principle of co-operation in any plan for affording assistance to China. Next step would be for Chinese Government to put forward some suggestions or agenda to serve as basis of joint discussion. Soong said that Chinese Government would in a very few days make preliminary reply accepting principle of joint action. He undertook to try to evolve a further communication which would contain concrete suggestions.

4. He then told me in strict confidence (and not for the information of other governments or bankers) that in view of failure of Hongkong and Shanghai Bank Loan proposal and since it had become clear that United States Government could not change their silver policy either as to stoppage of silver purchases or price at which they were prepared to buy he had been convinced that China must eventually be forced on to a paper currency. He had therefore come round to the view that the only remedy was to link her currency to some foreign currency, possibly sterling. He remarked that the moment for such a change was favourable in that China could now sell her silver to United States at a good price and some two months ago he had made tentative suggestions along these lines to the United States Government who appeared to regard purchase of China's silver as a purely business proposition. His idea was to stabilize the dollar at a fairly low level which would favour development of China's exports. For this purpose he seemed to think it might be necessary to

obtain .....

obtain loan of some 20 or 25 million pounds and a credit abroad of a similar amount. It was essential to prevent any inkling of this plan reaching bankers who would otherwise rig the market and make its execution difficult for Chinese Government.

5. If Chinese Government put any such scheme before us officially we should presumably have to communicate it to other governments and it is idle to suppose that it would not be made public, and therefore if secrecy is essential I do not see how it could be put into effect. Until, however, the Chinese Government make a formal proposal it will be possible for us to withhold information from the banks. But it has to be borne in mind that the banks are likely to oppose the scheme, that their opposition might be a serious obstacle and that if they are right in their opposition, such a scheme might be contrary to their interests which are amongst those we are concerned to protect.

6. I said I was sure His Majesty's Government would be interested to hear that he was contemplating such a scheme as they had gained the impression that he was opposed to it and therefore although they had thought it might have some possibilities they had not pursued their examination of it.

7. He assured me that the scheme, as far as general principles were concerned at any rate, had the support of Chiang Kai-shek and Minister of Finance.

8. I later saw the Minister of Finance who spoke on the same lines without however mentioning the idea of linking currency with sterling.

Addressed to Foreign Office No. 9 Tour of March 16th; repeated to Peking and Commercial Counsellor.

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F.O. 2002 1935

From CHINA.

Decypher. Sir A. Cadogan, (Nanking), 18th March, 1935.

D. W/T. 19th March, 1935.

R. 7.10 p.m. 18th March, 1935.

No.12. Tour.

-o-o-o-o-o-o-o-o-o-

My telegram No.9.

Vice Minister for Foreign Affairs this morning handed me in the form of aide-memoire reply of Chinese Government which is as follows:-

"The National Government of the Republic of China has given careful consideration to the contents of the aide-memoire of March 8th, 1935, and appreciates the friendly spirit therein manifested by His Majesty's Government in the United Kingdom.

"The Chinese Government shares the view of His Majesty's Government in the United Kingdom that a lasting and satisfactory solution of China's economic and monetary difficulties can only be sought by friendly co-operation and assistance of foreign governments chiefly concerned. The Chinese Government also shares the view that a detente in the Far East is essential to the successful realisation of any plan to meet the difficulties in which China is involved, and is desirous on its part to contribute its best efforts to this end.

"The Chinese Government therefore warmly welcomes the action of His Majesty's Government in the United Kingdom in opening discussions with the Chinese Government and Governments of United States of America, France and Japan, and holds itself ready to participate in discussions with the

the governments chiefly concerned, and will be glad to be informed of the views of His Majesty's Government in the United Kingdom as to how best to facilitate these discussions."

I informed him of what I had already said to Soong viz. that I thought His Majesty's Government, though they would be gratified by this reply, would be glad if it were possible to have more concrete suggestions and that until such were received it might be difficult for them to reply to enquiry in last paragraph of Chinese aide-memoire.

He promised to see what could be done and I shall see Minister of Finance tomorrow.

Vice Minister for Foreign Affairs enquired whether we should approach Italian Government. I said I had no indication on this point.

Addressed to Foreign Office, repeated to Peking, Commercial Counsellor and Tokyo Saving.

MILITARY DEPT
REF. TO
19 MAR 1935
P.P.
WITH

P.Z. 1952 1935

Immediate.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

MAILS BRANCH
18 MAR 1935
INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER
NO. 12 21 MAR 1935
POLITICAL AND SECRET DEPT. INDIA OFFICE

Foreign Office,

16 MAR 1935

, 193 .

The Under-Secretary of State,

India Office.

8—9572 (4)

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1952
1935

(F.1620/376/23).

To JAPAN.

Code telegram to Sir R. Clive. (Tokyo).

Foreign Office. March 15th. 1935. 4.30.p.m.

No. 50. (R).

--------oOo--------

1706.

Your telegrams Nos. 74 and 75 (of March 10th: Lord Lothian's utterances).

I approve your language. Neither Lord Lothian nor Lord Lytton voices in any way the views of His Majesty's Government, who are not in any sense looking for an entente with the United States against Japan.

Copy to India Office letter

403 F1792/35

Minute Paper. 2183 Fin 1935 **Department.**

Political Secretary.

This correspondence is developing mainly into a political matter than a financial aspect, and it is suggested that you should take these papers and later telegrams. Perhaps financial papers could be put on record in this dept & we should be glad to see your file from time to time, specially as it may affect the silver question. Do you agree?

Jno. Martin
20/3/35

I agree.
[illegible]
21/3.

404

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Immediate.

2183
1935

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

Transfer to Political dept 20/3

RECEIVED IN
20 MAR 1935
FINANCIAL REGISTRY

Foreign Office,

19 MAR 1935, 193 .

The Under-Secretary of State,

India Office.

ENCLOSURE IN WEEKLY LETTER
NO. 13 28MAR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

8—9572 (4)

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F. 1899 1935

2183 1935

From CHINA.

POLITICAL.

Decypher. Sir A. Cadogan. (Nanking).
March 14th, 1935.

D. (by wireless) March 16th 1935.

R. 4.12.p.m. March 16th 1935.

No.5. TOUR.

----oOo----

ENCLOSURE IN WEEKLY LETTER
No. 13 28MAR 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

I had long conversation today with Minister for Foreign Affairs who dealt among other things with financial situation.

2. His Excellency expressed gratitude for message from His Majesty's Government but he explained as he had done to Howe, that China would prefer assistance from His Majesty's Government alone or if need be from His Majesty's Government and United States Government.

3. I impressed upon him that His Majesty's Government were very anxious to assist Chinese Government if latter desired outside assistance and if it should prove possible to give it. As to this latter point His Majesty's Government must await in the first instance any proposal that Chinese Government might decide to make. But because they were anxious to give real assistance to China they must consider in what circumstances such assistance might be effective and they were convinced it could not be effective if given in such a way as to arouse suspicions or hurt susceptibilities.

4. Minister for Foreign Affairs said that the reply of Chinese Government was being considered: it might.....

might be that they would have no objection to joint assistance or it might be that they would reply expressing hope that any action might be taken by His Majesty's Government alone. They might at least express hope that if action were taken by several governments His Majesty's Government should take the lead in the matter.

5. I venture to suggest that in any reply that might be made public it might be unfortunate if either of the two last forms were proposed. Chinese government had asked us whether we could help them. If we saw any possibility of doing so we must be entitled to attach conditions, one of which would be co-operation of other interested governments. If Chinese government did not like that condition they could withdraw their request for our assistance without necessarily indicating that this particular condition was unacceptable.

6. His Excellency said that he hoped reply of Chinese government would be ready in a few days.

7. I am going to-night to Shanghai where I shall stay a day or two and where I shall see Soong.

Addressed to Foreign Office No.5 Tour of March 14th, repeated to Peking, Commercial Counsellor and Tokyo.

ENCLOSURE IN WEEKLY LETTER
NO. 13 28MAR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

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WITH THE COMPLIMENTS

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NO. 13 28 MAR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

Foreign Office,

13 MAR 1935 , 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

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1935

F.
1792
1935

From CHINA.

Decypher. Sir A. Cadogan (Peking). 11th March, 1935.

D. By wireless 11th March, 1935.

R. 6.30 p.m. 11th March, 1935.

No. 259.

.....

Following received from Mission:

Addressed to Peking No. 60 March 8th, repeated to Commercial Counsellor.

I had a long interview with Minister for Foreign Affairs this morning at which I communicated to him substance of Foreign Office telegram No. 69 as modified. His Excellency requested me to express gratitude of Chinese Government for consideration which His Majesty's Government had given to China's problems. He said that this consideration at once brought up recent developments which had taken place in Sino-Japanese relations significance of which he wished to explain to me.

2. Minister for Foreign Affairs stated that military operations threatened eastern provinces of Jehol by a foreign power was a fact which could not be disposed of. China in her present position of military weakness could not hope to dispose of question by force nor had she any desire to do so. It was still however a cardinal point in her policy to continue non recognition of Manchukuo and she expected that His Majesty's Government and other Powers concerned would also continue to be bound by resolutions on the subject to which they were parties.

3. This being so the only attitude which China could adopt was a pacifist one and she would wait on events. In the meantime in connection with recent developments with Japan she had

ENCLOSURE IN WEEKLY LETTER
No. 13 28 MAR 1935
FROM SECRETARIAT, POLITICAL AND SECRET DEPT. INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER
No. 13 28MAR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

had put the question of Manchukuo to one side. In spite of reports which had appeared recently in press no concrete steps had been taken but Chinese Government had agreed to do what is possible to suppress anti Japanese boycott. Recent movement towards a more friendly atmosphere in Sino-Japanese relations did not mean exclusion of other Powers. Chinese Government had instructed Chinese Minister at Tokyo to make enquiries of Japanese Government regarding terms which had appeared in Osaka Mainicci to which Japanese Minister for Foreign Affairs had replied that these terms did not represent views of Japanese Government in the matter which were as he had stated in his recent speech.

4. His Excellency stated that he was in agreement with views of His Majesty's Government that the only basis of peace in the Far East was friendship and co-operation between all the Powers concerned and that pacifist policy of China made no other course possible.

5. As regards China's financial difficulties His Excellency personally would prefer that any assistance which might be given to China should be shared by as few countries as possible and that if a purely British loan was not feasible his attitude was that he would prefer it to be confined to Great Britain and United States. I then, speaking entirely personally, asked His Excellency whether he thought any scheme to which Japan was a party would be acceptable to Chinese Government and to Chinese public opinion. His Excellency evaded this question for some time and said that he could not see why any loan granted by other powers than Japan need necessarily be contrary to Japanese interests nor why they should object if terms were fair or conditions for loan were not directed against Japan. I asked His Excellency whether

he

he really thought such a course was possible in view of Amau statement of Japanese Foreign Office last year and I again drew his attention to my memorandum which I had just read him which stated that the view of His Majesty's Government was that any plan of assistance for China should be carried out with friendly agreement and co-operation by all the Powers concerned of which Japan was one of the most important. His Excellency enquired whether this meant a revival of consortium, China's previous experience of which did not induce her to regard its resuscitation with anything but disfavour. He finally said that China might accept co-operation with Japan in a loan provided none of the conditions attached to it as far as Japanese were concerned were objectionable to China. His Excellency said that he personally would have no objection to Japanese participation but it is clear that Chinese are hankering after a loan in which Japanese will have no part and that they hope to get it from ourselves with or without the Americans.

6. At the conclusion of the interview His Excellency asked for a copy of memorandum which I accordingly gave him drawing his attention to statement at the end that His Majesty's Government particularly value an immediate expression of views of China.

7. In the course of our conversation His Excellency stated that both Japanese Minister and Italian Ambassador had in the last few days asked him what was taking place in regard to the question of a loan and that he had informed them of visit of Maze to London in this connection and that he hoped that it might be possible for something to be done in the matter.

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NO. 13 28MAR 1935
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SECRET DEPT. INDIA OFFICE

Original in Finance Dept 411

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From CHINA.

Decypher. Sir A. Cadogan (Peking).
11th March, 1935.

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F. 1737 1935

P.Z. 1706 1935

Finance Dept.

Immediate.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

F. 1404/35 in dept.

ENCLOSURE IN WEEKLY LETTER
NO. 13 28MAR 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Foreign Office,

11 MAR 1935 , 193 .

The Under-Secretary of State,

India Office.

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F. 1737 1935

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1706 1935

From JAPAN.

Decode. Sir R. Clive (Tokyo), 10th March, 1935.

D. 1.25 p.m. 10th March, 1935.

R. 9.30 a.m. 10th March, 1935.

No. 74. (R).

At interview yesterday Minister for Foreign Affairs again referred to speeches and writings of General Smuts, Lord Lothian and Lord Lytton advocating an Anglo-American understanding in Far East and asked for an expression of my views. I said that I had no reason to believe that any of these gentlemen were anti-Japanese or were animated otherwise than by pacific ideals and desires for peaceful development in the world including the Far East.

I said that constant allusion in Japan to years of crisis had naturally aroused speculation in England and elsewhere as to what was meant.

These gentlemen no doubt felt that if a crisis was to be expected the world should not be taken by surprise. At the same time they were expressing their own views and not those of His Majesty's Government.

As to our relations with America it was obvious that community of interests and language rendered friendly relations essential but I did not believe that either His Majesty's Government were seeking or that United States Government desired anything in the nature of an entente against Japan or any other country.

ENCLOSURE IN WEEKLY LETTER NO. 13 28 MAR 1935 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

He

He said that Japanese were indifferent to rude remarks about them by prominent Americans or in the American press. They regarded the utterances of prominent Englishmen differently and took them more seriously. So long as Anglo-Japanese alliance existed, he added, other countries had not been so preoccupied about China.

I asked whether he was satisfied now that the press excitement was dying down that His Majesty's Government had not proposed a loan anywhere and had merely suggested an exchange of views amongst interested powers including China in view of serious financial situation there.

He said that he was; and that he would communicate views of Japanese Government when they had completed their study of the situation.

ENCLOSURE IN WEEKLY LETTER
No. 13 28MAR 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

Original sent to Finance Dept.

ENCLOSURE IN FOREIGN OFFICE
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1706
1935

From JAPAN.

Decypher. Sir R. Clive (Tokyo),
10th March, 1935.

D. 1.20 p.m. 10th March, 1935.

R. 9.30 a.m. 10th March, 1935.

No. 75.

My immediately preceding telegram.

My impression is that Minister for Foreign Affairs is now nervous about prospect of an international loan and that army especially may oppose it as inimical to Japanese interests in China. Tendency is to advocate that God helps those who help themselves and that in any case gravity of situation has been exaggerated.

Minister for Foreign Affairs discoursed for an hour on the Anglo-American theme. He cannot dissociate in his mind gentleman mentioned from some connexion with His Majesty's Government. He has probably heard from the Japanese Ambassador that there is a strong feeling in certain quarters in favour of solidarity with United States against Japan and this appears to worry him. As Japanese-American relations tend to get less satisfactory as they appear to be doing Minister for Foreign Affair's desire for more intimate relations with United Kingdom increases.

Practical signs are however still lacking. I told His Excellency that failure to make reasonable settlement with oil company would make bad impression in England. He promised to use his good offices with his colleagues.

India
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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 13 28 MAR 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

MAILS BRANCH
11 MAR 1935
INDIA OFFICE

Foreign Office,

9 MAR 1935, 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

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J F. 1704 1935

(F 1514/6/10). To UNITED STATES OF AMERICA.

Cypher telegram to Sir R. Lindsay (Washington).

Foreign Office, 8th March, 1935. 6.15 p.m.

No. 54.

.....

Your telegram No. 62 (of March 5th. Financial situation in China).

I recognise that United States Government are not to blame for speculations of the press. You will however no doubt take an opportunity, if you have not already done so, of pointing out the harm which this unnecessary publicity has done. False reports from Washington have stimulated Japanese Foreign Office to issue a statement suggesting that if any assistance is given to China it will not be on an international basis. One of our main objects was to modify Japanese tendency to play a lone hand and so to facilitate a general détente in the Far East and improve the prospects for the Naval Conference.

Repeated to Tokyo No. 44 and Peking No. 100.

ENCLOSURE IN WEEKLY LETTER
No. 13 28MAR 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

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(F 1543/6/10)

To CHINA.

Cypher telegram to Sir A. Cadogan (Peking),

Foreign Office, 8th March, 1935. 4.30 p.m.

No. 99.

Your telegram No. 244 (of March 6th: Chinese financial situation).

You acted quite rightly. In view of absurd reports spread from Washington information on the same lines had already been given to press here and repeated in Parliament yesterday.

Chinese Minister in conversation today expressed approval of our action with Chinese and other Governments, and hoped you would make personal contact with Chinese Government in regard to it. He was told you would probably do this after they had had time to consider our communication.

ENCLOSURE IN WEEKLY LETTER
NO. 13 28MAR 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

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Notes.

Register No.
P. Z.
15/8
1361/35.

SECRET.
POLITICAL DEPARTMENT.

Minute Paper.

Dated
Rec. 193 .

	Date.	Initials.	SUBJECT.
To			
Under Secretary	13 3.		SINO-JAPANESE RELATIONS.
Secretary of State...			
Committee.....	15		
Under Secretary.....			
Secretary of State....			

Copy of to

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1558
1935

SEEN
POLITICAL COMMITTEE.
19 MAR 1935

FOR INFORMATION.

Peking telegrams No.142 of 9th February, No 214 of 27th Feb, 143 of 9th February, and Foreign Office telegram No.73 of 22nd February and Tokyo tel. No 54 of 26th Feb. should be read.

Conversations between Japan and China appear to have been in progress, although it is a little difficult to be certain of what actually transpired at them. The Japanese seem, however, despite their denials to have been putting pressure on the Chinese, their motives apparently being to secure the removal of the anti-Japanese boycott and possibly also to settle the question of the frontier between Manchuria and North China. Also the Japanese diplomats were no doubt influenced by the fear that their army might again take the bit between their teeth in default of a settlement on these two points. There was a little incident at the end of January/

Previous papers :—

2730 1000 4.34

January on the Chahar border. The Chinese were no doubt also encouraged to participate in these conversations by the greater control which their recent military operations against the communists have enabled them to exercise over the South Western Political Council at Canton, which, being removed from the battlefield, is hostile to any rapprochement with ~~China~~ Japan. The Chinese were probably also depressed by their economic situation and by the recent refusal of H.M.G. to give them a loan of £20,000,000.

A settlement of outstanding questions between the two countries is desirable, but it is most undesirable that Japan should obtain for herself any special political position in China. Quite apart from the difficulty under such circumstances of ~~adhering to~~ maintaining the open door in China, other difficulties for India would be caused by the likelihood of a China controlled by Japan being an unpleasant neighbour.

It is, therefore, to be hoped that the Powers will be able to agree upon a scheme whereby assistance can be given to China in her economic and monetary difficulties. It would, of course, be wise to include Japan in any such scheme in order to avoid giving the outward appearance that the scheme is really a political move aimed against ~~herself~~ Japan.

Financial Secretary

You may have additional recent information besides what is on this file regarding the negotiations reported in the press and suggested in Foreign Office telegram No. 73 and other telegrams for the giving of assistance to China.

HAF Rumbold
5.3.35.

Political Secy
Please see financial file attached. Especially the latest papers, which have not been seen by the Finance Minister.
8/3/35

Minute Paper. **Department.**

Copies of a number of Finance Dept. papers have now been added to the file. F.O. telegram of 22nd February to Peking No 69 & telegrams despatched at the same time to Tokyo & Washington should be seen. They show that H.M.G. have taken the initiative in consulting China & the Govts of other countries interested in China's economic situation regarding the possibility of co-operation between the Powers in assisting China. No concrete proposals have however yet emerged. So long as discussions continue there is no likelihood of China making political concessions to Japan, of a nature which would be embarrassing to us, in return for such economic assistance as Japan is in a position to give.

W A F Rumbold
13.3.35.

RMcL 18/3

19/3

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P. Z. 1629 1935

From CHINA.

Decypher. Sir A. Cadogan (Peking). 6th March, 1935.

D. (Via W/T.) 6th March, 1935.

R. 4.45 p.m., 6th March, 1935.

No. 239.

::::::::::::::

Following received from Commercial Counsellor.

Addressed to Peking No. 54 March 4th; repeated to Mission, Commercial Secretary Hongkong and Governor Hongkong.

My telegram No. 51.

Mr. Soong returned from Hankow last night. He sent his English Secretary Windt this morning to tell me that he had conveyed substance of your message to him to General Chiang Kai-shek and other members of Chinese Government and that it had been warmly welcomed and greatly appreciated as a constructive contribution to problem. He wished you to understand, however, that this was a purely personal comment and that Chinese Government were preparing a reply which would be given when official communication from His Majesty's Government was received.

DUPLICATE

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F. 1592 1935

FROM UNITED STATES OF AMERICA

Decypher. Sir R. Lindsay (Washington).
5th March 1935.

D. 3.47 p.m. 5th March 1935.

R. 9.30 a.m. 6th March 1935.

No. 62.

"""""""""""""""""""""""""""

China.

I saw Under Secretary of State last night and he told me that fantastic speculations in American press were not due to anything given here by State Department. He showed me shorthand report of what he had said at his press Conference and this made it clear that he had in fact given no information. It may be presumed that in the absence of information press has merely indulged in conjecture.

2. In the course of the conversation I referred to United States suggestion that His Majesty's Government should take the initiative in formulating a plan and said that speaking personally it seemed to me that United States Government were almost inviting His Majesty's Government to enquire whether they were willing to do something about their silver purchase policy. After a moment's thought Under Secretary of State answered "Well why not? It would be a very good thing to do".

3. It would of course be unsafe to infer from this remark that United States Government is prepared to modify its silver policy. That must depend on the President and Congress and I hardly like to express an opinion as to what they might decide beyond saying that I should not expect an immediate favourable response. But taken in conjunction with remarks by Under Secretary of Treasury (my telegram No. 44, paragraph 1) Phillips' reply indicates growing dissatisfaction with silver policy felt by administration as distinguished from the politicians.

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From JAPAN.

Decode. Sir R. Clive (Tokyo).
6th March, 1935.

D. 5.08 p.m. 6th March, 1935.

R. 10.20 a.m. 6th March, 1935.

No. 71. (R).

.....

My telegram No. 70.

Minister for Foreign Affairs in reply to question in Diet yesterday after receipt of my letter said that he was sure Great Britain and the United States were anxious to put China on a sound political and economic basis as soon as possible. These questions must be thoroughly studied and discussed with British, American and other Governments concerned.

Foreign Office spokesman today deprecated international loan and suggested financial crisis in China was not so acute as had been reported.

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P. Z. 1516 1935

Immediate.

pp 1509 — mR 8/3

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
14 MAR 1935
NO. 11
AND
FROM
SECRET
POL. DEPT.
5 MAR 1935
INDIA OFFICE

Foreign Office,

4 MAR 1935

, 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

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F. E. 1516 1935

From JAPAN.

Decode. Sir R. Clive (Tokyo). 4th March, 1935.

D. 3.55 p.m. 4th March, 1935.

R. 9.30 a.m. 4th March, 1935.

No. 68. (R).

.....

My telegram No. 60.

His Majesty's Consul-General Mukden reports conversation with General Minami, Japanese Ambassador to Manchukuo in which His Excellency said that surest means of securing permanent peace would be for Great Britain to confine her attentions to regions west of Singapore and United States to American Continent leaving nations of Far East to settle their own problems without interference. China could not get over her difficulties without assistance and it was to Japan that she should look.

Addressed to Foreign Office telegram No. 68, repeated to Peking Saving.

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CONFIDENTIAL

P. Z.
1518
1935

Immediate.

pp 1361
R 27

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

REGD. DEPT.
5 MAR 1935
INDIA OFFICE

Foreign Office,

4 MAR 1935

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ENCLOSURE IN LETTER
NO. 10
7 MAR 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

The Under-Secretary of State,

India Office.

8—10687 (4)

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F. O.
1518
1935

From CHINA.

Decypher. Sir A. Cadogan (Peking). March 1st 1935.

D. Wireless. March 1st 1935.

R. 4.30 p.m. March 1st 1935.

No.225.

****

1361 My telegram No.187.

Military Attaché reports begin:-

I have learnt confidentially from official Chinese circles that in violation of terms of a written agreement and despite the fact that Chinese authorities assert that pass at Malanyu has been retroceded, in actual fact Japanese are still in possession of pass and eastern tombs at Tsunhua.

It appears that Chinese authorities in Peking consider the situation a very delicate one and are loath to press the point for fear of stirring up serious trouble.

2. I understand a settlement of this question is now under consideration by Kuangtung military authorities.

Addressed to Foreign Office No.225 March 1st, repeated Saving to Mission, Tokyo, Mukden and Tientsin.

From UNITED STATES OF AMERICA.

Decypher. Sir R. Lindsay (Washington).
1st March, 1935.

D. 7.20 p.m. 1st March, 1935.

R. 9.30 a.m. 2nd March, 1935.

No. 61.

My immediately preceding telegram.

In further conversation at which Mr. Hornbeck was present, Under Secretary of State pointed out that as regards the past the attitude of United States Government had been substantially identical with that of His Majesty's Government. He said that State Departmentment entertained a strong desire to help China in co-operation with other Powers concerned and in agreement with China herself. They considered however that help should not necessarily be conditional on or subsequent to achievement of a detente (if indeed such were the intention of His Majesty's Government) but that if given speedily to China in her present acute distress it might contribute to bring about just the detente which His Majesty's Government and United States Government were united in regarding as desirable. Moreover they would be anxious to avoid putting any pressure on China to come to terms with Japan or to any course of action having that appearance. They therefore welcomed approach to the question made by His Majesty's Government and hoped that latter would if possible take the initiative in formulating a plan for affording the help of which China stood in need.

I then asked whether United States Government had any ideas as to form which such assistance should take. Under Secretary of State replied in the negative and said that State Department had not considered this yet. Indeed it had not yet consulted with the Treasury or with (?President) and therefore while he had had no hesitation in expressing a strong desire to help we must not take that as a formal pledge that United States Government would be able to help.

F 1529/35 433

From UNITED STATES OF AMERICA.

Decode. Sir R.Lindsay (Washington) March 1st. 1935.

D. 7.21 p.m. March 1st 1935.

R. 9.30 a.m. March 1st 1935.

No.60 (R)

My telegram No.55.

Under Secretary of State called me to State Department to-day and made the following oral communication to me. Begins:-

Some weeks ago the Department of State received from Chinese Minister at Washington the text of a message from Chinese Minister of Finance containing the outline of a plan with regard to silver in which there was suggested that, in view of what China considered necessity of abandoning present silver basis and adopting a new currency system involving use of both silver and gold, the United States extend to China a substantial loan and in addition a substantial credit; this project to be subject to working out of a definite agreement in regard to such currency programme as might be deemed feasible. The Department made reply that American Government did not deem it practicable for United States to embark upon such an undertaking and that we ventured to enquire whether Chinese Government had given thought to possibility of presenting an outline of its ideas simultaneously to governments of those foreign Powers - of which United States is one - which had in the past manifested interest in projects for Chinese currency reform and in projects relating to Chinese financial problems.

See my immediately following telegram.

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P. Z. 1509 1935

Engl. in Financiers.

MnR

FROM FRANCE

Telegram (en clair) from Sir G. Clerk (Paris).

D. 28th February 1935.

R. 1st March 1935.

No. 33 (Saving) (BY BAG)

F.O. 371/18856 1278 R 1492

Very confidential.

Your telegram No. 74 (Saving). China Loan.

Head of Asiatic Department at Ministry for Foreign Affairs to whom I made communication as instructed, told me that speaking personally he entirely agreed with your view as to undesirability of making loan in present circumstances. Question however was one in which Ministry of Finance were interested and it would of course be necessary to consult them before returning a formal reply.

2. Monsieur Cosme added that recent reports received from Tokyo as well as from Shanghai and Nanking all confirmed that Chinese Government were making great efforts to improve Sino-Japanese relations, and it seemed possible that they might be successful. The Chinese Government could naturally be under no illusion as to their chances of getting any money out of the Japanese Government by way of a loan at present juncture, but they undoubtedly hoped, by persevering in a policy of rapprochement, to create a situation, once world economic conditions had improved, whereby they could play off Western Powers and Japan against each other particularly in the realm of finance.

3. In enquiring whether His Majesty's Government had received similar information Monsieur Cosme asked me to treat what he had said as very confidential.

Addressed to Foreign Office telegram No.33 Saving of February 28th; repeated in cypher to Peking, Tokyo and Washington.

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1509
1935

From JAPAN.

Decypher. Sir R. Clive (Tokyo). February 28th 1935.

D. 8.10 p.m. February 28th 1935.

R. 2.00 p.m. February 28th 1935.

No.60.

^^^^^^^^^^^^^^^^

CONFIDENTIAL.

Following are views of General Araki on Sino-Japanese rapprochement as given to Commercial Counsellor by Captain Yamada.

Army has no faith in sincerity of Chinese authorities. Talk of boycott is off and anti-Japanese education in schools eradicated (? grps omtd.) it is I gather the talk of rapprochement.

Present Chinese attitude is to make Powers believe Sino-Japanese relations are improving as Japan cannot help with money and the Powers will not unless they feel Japan's attitude to China is friendly.

Great Asiatic movement which was consonant with principles of Sun Yat-sen was being introduced by Chinese for domestic politics but China was not qualified by her strength or finances to oppose Japan on an equal footing.

Japanese Military Attaché had only seen Chiang Kai-shek after renewed request from the latter and with (grp. undec.) consent of Japanese War Office.

Addressed to Foreign Office No.60 February 28th, repeated to Peking.

A0

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CONFIDENTIAL

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P. Z.
1416
1935

Immediate.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
No. 10 7 MAR 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

Foreign Office,

28 FEB 1935

, 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

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P. Z. 1416 1935

From JAPAN.

Decode. Sir R. Clive (Tokyo), 28th February, 1935.

D. 11.30 a.m. 28th February, 1935.

R. 9.30 a.m. 28th February, 1935.

No. 57. (R).

1415. My telegram No. 54.

Foreign Office spokesman read to the press yesterday statement which the "Times" correspondent believes was written by Minister for Foreign Affairs himself rebutting reports from London of Japanese (grp. omtd.) China. Minister for Foreign Affairs told me at our interview that Japanese Ambassador had mobilized J.O.P. Bland, Captain Kennedy and J. Piggott to reply in the London Press.

Addressed to Foreign Office No. 57, repeated Saving to Peking.

ENCLOSURE IN WEEKLY LETTER NO. 10 7 MAR 1935 FROM SECRETARY, POLITICAL AND PCC

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F.O. 1416 1935

FROM CHINA

Decypher. Sir A. Cadogan (Peking). 27th February 1935.

D. (By Wireless) 27th February 1935.

R. 9.00 a.m. 28th February 1935.

No. 214.

Following received from Mission:

Addressed to Peking No. 50, of February 25th, repeated to Commercial Counsellor.

From various indications here it seems that emphasis of new Japanese drive for rapprochement with China is being directed towards commercial and economic aspects of Sino-Japanese relations. The suggestion is that Japan is looking to China as her future supply of raw material wherever possible and as a market which will eventually absorb the whole of Japan's industrial output. In this way Japan would seek to break economic (grp.omtd.) with other countries which now hamper her ambitions for hegemony of Far East such as for example her dependence on United States for sale of her manufactured silk and purchase of her raw cotton. This entails long term loans and employment of none but Japanese technical experts.

Head of international affairs department of Waichiaopu told me today that Japanese bankers had recently approached leading Chinese bankers in Shanghai with offer of loan for defence of China's currency which would mean linking the yen to the dollar.

ENCLOSURE IN FOREIGN OFFICE
VERNO LETTER DATED 20 FEB 1935

Original taken by Finance Dept

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Copy sent to F.O. by Finance Dept

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COPY OF
1415

From UNITED STATES OF AMERICA.

Decypher. Sir R. Lindsay (Washington),
25th February, 1935.

D. 9.32 p.m. 25th February, 1935.

R. 9.30 a.m. 26th February, 1935.

No. 55.

CONFIDENTIAL.

Secretary of State being absent I today made oral communication to Under Secretary of State as instructed in your telegram No. 42 and gave him written statement of reasons for refusing loan or credits to China.

Under Secretary of State expressed great interest but was unable to comment offhand. He informed me that State Department had recently received a suggestion from Chinese Government about some sort of loan of 100 million dollars but it was ambiguously expressed and as State Department did not know what to answer it had so far sent no answer at all.

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440 Original taken by Finance Dept

Copy sent to S/S by Finance Dept.

P. Z. 1415 1935

From JAPAN.

Decypher. Sir h. Clive. (Tokyo).
February 26th. 1935.

D. 12.50.p.m. February 26th. 1935.

R. 9.30.a.m. February 26th. 1935.

No. 54.

---oOo---

Your telegram No. 32.

I left with Minister for Foreign Affairs yesterday confidential written statement in accordance with your instructions and explained to His Excellency attitude of His Majesty's Government. He expressed his warm appreciation. While agreeing that loan was not a lasting remedy for China's troubles he saw that he would have to carefully study the whole situation and would willingly co-operate in considering best means of helping China. He welcomed the initiative of His Majesty's Government and said that Japanese had not liked to approach United States Government in the matter.

In reply to enquiry how he viewed the financial situation in China he said that the Japanese Commercial Attaché in Shanghai who was now in Tokyo had reported that amongst Chinese bankers there was a pessimistic and optimistic element. The latter argued that China had survived previous financial crises and might do so again.

Minister for Foreign Affairs particularly welcomed my remark that "general policy of His Majesty's Government in the Far East was influenced by the desire that there should be cordial relations between Japan and China". I enquired as to the trend of recent conversations with the Chinese Government. He said that the

Japanese.....

Japanese Government was anxious to create more friendly atmosphere at present and nothing more. They had asked Chinese Government to stop anti-Japanese trade movement and especially to eliminate from school text books anti-Japanese paragraphs with a view to promoting better feeling between the two countries. He insisted that no pressure was being exercised and resented recent article by Lord Lothian in the 'Times', summary of which had been telegraphed by the Japanese Ambassador, to the effect that Japan was putting pressure on China in a sense hostile to the League of Nations.

Finally, His Excellency said that later he would like to discuss with His Majesty's Government various matters relating to China.

There is no doubt that His Excellency genuinely appreciated communication I made and took it as evidence of friendly and sympathetic gesture on the part of His Majesty's Government. He again emphasised the desire of Japanese Government to have most intimate possible relations with His Majesty's Government.

Addressed to Foreign Office No. 54 February 26th; repeated to Peking.

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1935

pp 9114.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN W[illegible]
28 FEB. 1935
No. [illegible]
FROM SECRETARY, POLI[illegible]
SECRET DEPT. INDIA OFFICE

REGD. POL[illegible]T.
27 FEB 1935
[illegible]A OFFICE

Foreign Office,

, 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

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P. Z.
1361
1935

From CHINA.

Decode. Sir A. Cadogan, (Peking),
25th February, 1935.

D. W/T. 25th February, 1935.

R. 4.30 p.m. 25th February, 1935.

No.187. (R).

-o-o-o-o-o-o-o-o-

Military Attaché reports that official Chinese circles confirm that conferences were held in Peking in the middle of February between Chinese and Japanese authorities for discussion of outstanding questions affecting neutral zone as a result of which it was agreed to establish new gendarmerie corps to be limited to 5,000 men for preservation of order in zone in place of present police units which will be withdrawn when the new force takes over.

Situation in Tushihkou-Kuyuan area remains quiet.

Addressed to Foreign Office, repeated Saving to Mission, Tokyo and Mukden.

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Secret

P. Z.
1278

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 9
28 FEB 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

MAILS Bhan Off
25 FEB 1935
INDIA OFFICE

Foreign Office,

23 FEB 1935, 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

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1278
1935

To CHINA.

Code telegram to Sir A. Cadogan. (Peking).

Foreign Office. 22nd February, 1935. 6.45.p.m.

No. 73. (R).

-----oOo-----

The Chinese Minister on February 19th gave me a long and gloomy account of Japanese pressure on China. According to him things were coming to a head and the crisis might be reached within the next two or three months. China, he feared, if unaided, would not be able to resist. It was evident that he wished to convey the impression that if Japan got her way others besides the Chinese would suffer for it.

I said that the practical question appeared to be what China herself was able to do and what she wished others to help her to do in her difficulties. The Minister had insisted that the Nanking Government was steadily increasing its authority. How far then could China help herself? Referring to the currency situation, I said that we earnestly desired to help in any way we could so long as the method was calculated really to put China on her feet. We were now communicating with Nanking on the subject and were doing so in advance of consultation with other Powers because we attached the greatest importance to the view which the Chinese Government itself took. I hoped we should have a very full and thorough answer from China to our enquiry. It would be interesting to know, for example, whether the Chinese Government were prepared to propose reforms which would be carried through with the assistance of representatives from the countries which were going to help her. I cited the case of the Chinese Customs as an example.

INDEXED

P. Z. 1266 1935.

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Immediate.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN [illegible]
NO. 9 28 FEB. 1935
FROM SECRETARY, POLITICAL & SECRET DEPT. INDIA OFFICE

FOREIGN OFFICE BRANCH
28 FEB 1935
INDIA OFFICE

Foreign Office,

22 FEB 1935 , 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

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F.O. 1266 1935

From JAPAN.

Decode. Sir R. Clive (Tokyo). February 22nd 1935.

D. 5.6 p.m. February 22nd 1935.

R. 10.15 a.m. February 22nd 1935.

No. 53. (R).

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Wang Chung-liu on his return to The Hague is stopping in Tokyo where he has had long conversations with Minister for Foreign Affairs Minister of War and Minister of Marine.

Removal of Japanese boycott and economic collaboration are said to have been especially discussed.

Press reports that Minister for Foreign Affairs in committee of Diet yesterday expressed his confidence in Chiang Kai-shek and said that only in China could Japan find satisfactory market for her goods at a time when other countries were imposing restrictions on Japanese trade.

Addressed to Foreign Office No. 53, repeated to Peking.

DUPLICATE

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F. 1411 1935

(F 1017/6/10)

To CHINA.

Cypher telegram to Sir A.Cadogan (Peking).

Foreign Office. 22nd February, 1935. 6.15 p.m.

No.69.

XXXXXXXXXXXXXX

My telegram No.29 (of January 19th: Chinese Silver Situation).

1. As a result of the prolonged consideration that has been given in London to the remedies proposed for the difficulties in which China is involved by the rise in the value of silver, we feel that full and frank communication with the other Powers most closely interested should no longer be delayed. In fact enquiries as to our attitude having actually been addressed to us, this has now become a matter of some urgency. As we have already informed the Chinese Government we felt bound to discourage the proposals referred to above because we believed that they would offer no real or lasting remedy, but this refusal does not imply that we are indifferent to the economic and financial difficulties of China. These, on the contrary, are a matter of grave concern to us, and it is our strong desire to assist China in cooperation with the other Governments mainly concerned.

2. We now propose to explain frankly to the Governments of Japan and the United States (and possibly also, at a later stage, to the Government of France) the action we have already taken in regard to the proposals recently put forward, our attitude and the reasons for it, as explained above and in my

telegram ...

telegram under reference. It would seem that any such communication must inevtiably lead to discussions as to the causes of China's present difficulties and to consideration of the question whether the Powers mainly concerned would be prepared to cooperate with China in considering how the position can best be ameliorated. Before embarking on such discussions we should be glad to learn whether the Chinese Government have any observations or suggestions to make.

3. In making a communication on the above lines to the Chinese Government, you should explain that our general policy in the Far East is influenced by the desire that there should be cordial relations between China and Japan, based on a friendly settlement of the outstanding difficulties between the two countries. We believe that this is the only possible basis for a general détente in the Far East which, from the wider point of view of the general interests of the countries mainly concerned, namely China, Japan, Great Britain, and the United States, is of supreme importance, and without which there can be no saitsfactory solution of any of the particular problems with which those countries are faced. No plan for dealing with China's financial difficulties, for example, could be really satisfactory unless it contributed to, or formed part of, such a détente. In our view, therefore, it is vital that any plan for assisting China, besides being technically sound, should be carried out with the friendly agreement of other Powers, including, of course, China herself, and we should therefore particularly value an immediate expression of the views of China as to the best way in which this might be done.

4. Repeated to Washington 40, Tokyo No.31 and Paris No.67 Saving.

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(F 1017/6/10)

To JAPAN.

Cypher telegram to Sir R. Clive (Tokyo),

Foreign Office, 22nd February, 1935. 7.30 p.m.

No. 32.

Your telegrams Nos. 31 and 39 (of January 29th and February 7th; Silver situation in China) and my telegram No. 69 to Peking.

You should take an early opportunity of informing the Japanese Government, in confidence, that His Majesty's Government have been following for some months past with close attention the development of the financial situation in China, and that in particular we have given careful consideration to certain proposals involving foreign loans or credits recently put forward in Shanghai. We felt bound to discourage these proposals because, for the reasons explained in my telegram No. 29 of January 19th to Peking, we believed that they would offer no real or lasting remedy, and you may leave with the Japanese a written statement of these reasons, substituting in it "present high price of silver" for "United States silver policy" (see paragraph 1 of telegram No. 29 to Peking) and omitting the third sub-paragraph (beginning "the most obvious") from paragraph (3). We have, however, explained to the Chinese Government that our attitude towards these proposals does not imply that we are indifferent to the economic and financial difficulties of China, which, on the contrary, are a matter of grave concern to us, and we have emphasised our strong desire to assist China, in co-operation with the other Governments

mainly

mainly concerned.

2. You should explain in confidence the general attitude and policy of His Majesty's Government as set forth in paragraph 3 of my telegram No. 69 to Peking. You should state that we have informed China that we proposed to consult other Governments with a view to ascertaining whether they would be willing to co-operate in considering the best method of overcoming the financial difficulties of China in agreement with China herself. As soon as China's observations are received, we will communicate further with the Japanese Government (but, in the meantime, you might endeavour to ascertain the views and probable attitude of the Japanese Government on the problem as a whole).

Repeated to Washington No. 41, Peking No. 70 and Paris No. 68 Saving.

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To UNITED STATES OF AMERICA.

(F 1017/6/10)

Cypher telegram to Sir R. Lindsay (Washington)

Foreign Office, 22nd February 1935, 8.50 p.m.

No. 42.

- - -

My telegram No. 32 to Tokyo (of February 22nd: financial situation in China).

You should speak in similar terms to the United States Government asking for matter to be kept confidential and explaining that the Japanese government having enquired as to our attitude towards the financial situation in China we have thought this was a convenient opportunity to explain our views fully to the three governments mainly concerned namely, China, Japan and America. You may also communicate a written statement on the lines of that which Sir A. Clive will communicate to the Japanese government. In the event of China responding favourably to our communication we would naturally welcome co-operation of United States government in any steps that may be found useful in dealing with the situation.

For your own information we of course recognise that any suggestion from outside for modifying the American silver policy would jeopardise, if not be fatal to American co-operation. It is however our hope that, provided there is no appearance of challenge or criticism on this domestic issue of theirs, they

may

may in fact be willing and able to co-operate.

It will not be lost on the United States government that any steps leading to a general détente in the Far East should contribute to the successful outcome of the present naval negotiations.

Repeated to Tokyo No. 33, Peking No. 71 and Paris No. 69 Saving.

NO DISTRIBUTION.

Cypher telegram to Sir A. Cadogan. (Peking).

Foreign Office. 22nd February, 1935. 7.45.p.m.

No. 72.

--------oOo--------

My telegram No. 69.

It is no doubt possible or probable that Chinese Government will communicate with Hongkong and Shanghai Bank on the subject and you should at your discretion in view of this eventuality convey as much of it as you think advisable to the Bank in strict confidence, informing me at the same time of what you say to them so that we may use the same language to them at this end.

DUPLICATE

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F.
1359
1935

(F 1059/6/10). NO DISTRIBUTION.

Cypher telegram to Sir R. Lindsay (Washington).

Foreign Office, 22nd February, 1935. 6.0 p.m.

No. 43.

.....

Your telegram No. 44 (of February 15th: United States silver policy) was received after my telegram No. 42 had been drafted. It is not desired at this stage that you should make any specific request of United States Government, and objection is seen to communicating textual copy of inter-departmental report.

INDIA OFFICE
WHITEHALL S.W.1.

Mr. Pope.

1. Please obtain a copy of Peking tel^m No 143 referred to in tel^m No 142. Before asking F.O. for it, it might be worth checking whether it has gone to Finance Dept. P.Z. 1052

2. If we have 1934 papers about Sino-Japanese relations (in a seperate file), I should like to see them as probably this file could be amalgamated with them. No separate earlier file

3. Please ask Finance Dept. whether we might borrow their China Silver Situation file

4. P.Z. 693/35 (Peking tel^m No 96) should go on file about Japanese policy towards Mongolia (Outer) or, if we have not got such a file, on Russo-Japanese relations file.

5. Please attach a copy of Ld Lothian's letter in today's Times. 18-2-35

The Times, 18.2.35.

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THE PACIFIC

JAPAN AND THE NINE-POWER TREATY

TRADE CONSIDERATIONS

TO THE EDITOR OF THE TIMES

Sir,—In his recent speech in Capetown General Smuts repeated the warning he gave in his famous London address last November, that the Pacific situation was fundamentally more dangerous than the European.

The events of the last few days have confirmed his view. Though Japan denounced the Washington Treaties at the end of December most people believed that, in accordance with those treaties, we should have two years in which to try to work out a new solution. I think that will be true so far as the naval question is concerned. In view of the present naval temper of the United States I do not think Japan will start a new naval race without making a serious effort to reach agreement. It is quite clear, however, that Japan has already set to work to nullify the political basis of the Washington Treaties—namely, the integrity of China, equality of opportunity for the trade of all nations in China, and the principle that these questions were the collective concern of the signatories of the Nine-Power Treaty. I do not think it is open to doubt that Japan hopes to face the world with a *fait accompli* in China analogous to that which she accomplished in Manchukuo by the date of the expiry of the two years' notice during which the Washington Treaties still remain in force.

If the many telegrams which have reached this country in the last few weeks are correct Japan is now proposing to China an alternative to the Washington system. She is suggesting that China should relinquish her membership of the League of Nations, send away her European and American advisers, and enter into an Eastern Asian association on such intimate political and economic relations with Japan as would not only keep the rest of the world at a distance but would terminate what remains of the unequal treaties and in the long run end in the destruction of the property and trading interests built up by Europeans and Americans in China in the last 150 years. It is alleged that as inducements Japan is offering to China financial assistance to enable her to deal with the crisis caused by the appreciation in the value of silver and practical help to end the so-called Communist war in the centre of China. It has been stated by a high Japanese official that at the recent Ariyoshi-Chiang Kai-shek conversations China was

told that if she did not see the international political situation in the Orient as we do we would be unable to guarantee against a repetition of events similar to the Manchukuo incident of 1931, the Shanghai clash of 1932, and the most recent Chahar-Jehol clash.

I do not know how far these accounts are in all respects accurate, but that Japan has set to work to tear up the Nine-Power Washington Treaty and the collective system in the Far East is certain.

I do not wish to discuss the precise method of dealing with this situation. There is, of course, no question of war. That is the strength of the Japanese position as they well know. But there is all the difference between a policy of drift before the apparently inevitable and a vigorous use of such power and influence as the other signatories of that Nine-Power Treaty possess, which is now being torn up without their consent. China does not want to be absorbed by Japan. She wishes to stand on her own legs without any form of foreign control. The United States, the British Empire, Russia, France, and Italy can give her more effective financial help than can Japan, and if they make the most of their position they can probably not only keep China in the orbit of the League of Nations and the Washington Treaties but preserve their own legitimate rights as well.

I had thought that a consideration of these questions might have awaited the Jubilee meeting of Empire Prime Ministers because Canada, Australia, and New Zealand are as vitally affected by Pacific questions as we are ourselves. It is now clear that we ought to take preliminary action to mobilize the other signatories of the Nine-Power Treaty before that date. Not that I grudge to Japan a predominant influence and power in the Far East. She is fully entitled to it. The sole question is whether, to use an Americanism, she is going "to get away" with a repetition on the gigantic field of China as a whole of the policy of veiled annexation she has already carried out in Manchukuo. It is as well to remember that Japan professed vehemently her intention to maintain within that country the principle of the "open door"—a profession at the time underlined by Sir John Simon. But to-day the "open door" for the trade of other countries has practically been closed.

Yours sincerely,

LOTHIAN.

Seymour House, 17, Waterloo Place.

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Immediate.

(Rumbold

To all.

2. P.A.

pp 1023.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. 7 14 FEB 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

15 FEB 1935.
INDIA OFFICE

Foreign Office,

12 FEB 1935

, 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

NO DISTRIBUTION.

Decypher. Sir R. Lindsay (Washington).
15th February, 1935.

D. 5.29 p.m., 15th February, 1935.

R. 9.30 a.m., 16th February, 1935.

No. 44.

Your telegram No. 9,

Mr. Bewley discussed silver situation informally with the Under Secretary of the Treasury, Coolidge. Coolidge fully appreciates effects on China of silver policy, but does not feel Treasury Department as such can take action at present to modify the policy. He apparently proposed recently that modification should be made that the price of silver would not be driven up further but was told that this was not politically practicable at present. He said, however, that there was growing uneasiness in the State Department about the possible effects in China and suggested best hope of obtaining modification of silver policy would be for us to approach the State Department from political angle, argument being that policy might lead to something approaching chaos in China and that this might have unforeseeable repercussions elsewhere, e.g., some form of Japanese intervention.

2. Apart from this Coolidge was unable to make any helpful suggestion although personally very sympathetic. He was unable to estimate strength of silver bloc in Congress but could not deny there was danger of silver price being driven still higher.

3. I should myself see no objections to making representations to the State Department if you desire them. I should prefer that they should be oral and semi-official in character and based on extensive investment in China just as much as on damage American policy is inflicting on that

country./

country. I should be particularly glad if you would authorise me to communicate confidentially a textual copy of inter-departmental report of action taken which so far as I can see contains nothing which cannot be revealed to the State Department or to which it could take exception. I should also need to be instructed as precisely as possible exactly what I should ask the United States Government to do, e.g., would you consider that an announcement of stabilization of silver at about its present price would suffice to save the situation or would a material reduction in the price be necessary?

4. I am far from expecting that such a demarche would have any immediate tangible effect but I think it might strengthen the hands of notable men here who deplore this silver policy (especially if you agreed to communication of interdepartmental report) and it would make it easier for us to make more serious remonstrances later if the present policy is maintained or aggravated.

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F. O.
1052

From CHINA.

Decypher. Sir A. Cadogan (Peking).
9th February, 1935.

D. (Via W/T.) 9th February, 1935.

R. 9.30 a.m., 11th February, 1935.

No. 143.

::::::::::::

Following received from Mission No. 29 February 2nd.

Begins.

Your telegram No. 31.

I asked Vice Minister for Foreign Affairs yesterday whether there was any truth in recent newspaper reports of offer to China by Japan of an alliance in return for military and financial assistance.

2. Hsu Mo replied that no official offer as that suggested had been made by Japanese Government. Japanese Minister had merely represented to Wang C.W. the desirability of a return to normal neighbourly relations and a settlement of outstanding questions on basis of status quo in regard to Manchukuo. Vice Minister for Foreign Affairs went on to speak of difficulty of Chinese Government and disregard by Japan of provisions of Washington Treaties and asked me what would the attitude of His Majesty's Government be in the event of Japan making (grp. undec.) of her troops and whether Chinese Government could count on any assistance from us. I replied that we stood as he knew for territorial integrity of China and policy of open door and that I had no reason to suppose there had been any change in our policy in

that ...

that respect which had as a matter of fact been re-affirmed publicly not long ago.

3. I subsequently had a long conversation with head of International Affairs Department of Waichiaopu who told me very confidentially that while Japanese Minister's conversation with Wang C.W. had been as stated by Hsu Mo, Japanese Military Attaché at Shanghai at his recent interview with Chiang Kai-shek which incidentally had not been proposed by Chiang Kai-shek but was postponement of one previously asked for by Military Attaché, had represented to Chiang Kai-shek the futility of China's reliance on help from the League of Nations, Western Powers and United States and that it would be much more to China's advantage to realise that her interests lay in a policy of friendly co-operation with Japan and that if China would throw in her lot with Japan the latter would extend most generous financial, political and military assistance.

4. Nanking is full of wildest rumours on the subject of these recent moves by the Japanese but I think above is a fairly accurate picture of what has been happening. I have a strong impression that while Japanese Minister uses smooth language to Government and confines himself to necessity of settling outstanding questions Japanese military have spoken in an entirely different and rougher language and that there is in fact something brewing. French Minister tells me that he finds Chinese very downhearted and looking vaguely elsewhere for help.

5. Mechanical use of word "sincerity" in an

account ...

account which my Japanese colleague gave to me of the interview with Chiang Kai-shek, very much strengthens my impression that Japanese are in fact putting pressure on Chinese.

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Immediate.

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W. Rumbold.
The top tel. is interesting.
D.M.C. 15/2 pp 6 & 10.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN NO. -7 14 FEB 1935 FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

REGD. T. 12 FEB 1935 INDIA OFFICE

Foreign Office,

11 FEB 1935, 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

MAILS BRANCH 12 FEB 1935 INDIA OFFICE

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F.O. 1023 1935

From CHINA.

Decypher. Sir M. Cadogan (Peking) 9th February 1935.

D. (Wireless) 9th February 1935.

R. 6.00 p.m. 9th February 1935.

No. 142.

- - -

670. 845

Tokyo telegrams Nos. 30, 31 and 35 to Foreign Office.

X My immediately following telegram is repetition 1052 of Mr. Howe's reply to my request for a report on rumours of "demands" put forward by Japanese representative in recent Sino-Japanese conversations at Nanking.

2. On February 6th special Waichiaopu representative at Peking called on me and confirmed that Chahar incident had been settled (see my telegram No. 128). Chinese government would not formally recognise any "frontier" but had agreed not to station troops in area in question. Mr. Cheng (who is Huang Fu's special agent) added that Sino-Japanese relations had "taken a new turn". I could however only gather that this was the result of a sum of impressions rather than any actual understanding or arrangement. He described it by saying "China had informed a journalist that she would not be anti-Japanese and that Japan had said she would not take any aggressive action in China". He denied that there was any truth in reports of Japanese offer of assistance financial or other in return for exclusive privileges. T.V. Soong however admitted recently to acting Commercial Counsellor that Japanese

REGD. POL. DEPT. 12 FEB 1935 FOREIGN OFFICE

Japanese were willing to give financial assistance to China but on their own terms.

3. According to local press report General Doihara who is spending a few days in Peking is being entertained in most friendly fashion by local Chinese officials.

4. Secret. According to information furnished from Chinese sources by well-informed local American resident to United States Legation Chiang Kai-shek has agreed to gradual establishment of close relations with Japan new arrangements to embrace appointment of pro-Japanese officials to important government posts including Huang Fu as Minister for Foreign Affairs and Yen Hsi-Shan to take charge in Peking. The process will be a gradual one and Canton will be brought into line.

5. These various items of information seem all to fit in, including recent reports regarding Japanese activities in South China.

Addressed to Foreign Office telegram No. 142 of February 9th, repeated to Commander-in-Chief Saving to Tokyo and Mission.

Financial Secretary.

Copies of F.O. tel[n]: No 29 of 19[th] Jan (F 606), of Percy tel[n]: No 90 of 26[th] Jan – 7.723 ✓ & Yorke tel[n]: No 39 of 7[th] Feb are – 7.978 ✓ available, Pol. Dept. wd. be v. glad to have them for our files.

[illegible]
5/3.

Mr Rumbold.

Herewith-
H.S.
6/3.

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469 DUPLICATE

F 978 1935

From JAPAN.

Decypher. Sir R. Clive (Tokyo).
7th February, 1935.

D. Noon 7th February, 1935.

R. 9.30 a.m. 7th February, 1935.

No. 39.

.....

Director of Commercial Department informed Commercial Counsellor yesterday that neither had Chinese Government suggested nor was Japanese Government considering financial assistance to China. At the same time he showed that he knew of recent discussions with Hongkong and Shanghai Bank and mentioned figure of 20 million pounds. He doubted whether a loan was remedy for the present critical situation but questioned whether Chinese were capable of dealing with problem themselves or would be willing to agree to supervision which was essential if Great Britain, the United States and Japan were to come to their aid.

I should be grateful for authority to inform Japanese Government of views of His Majesty's Government.

Addressed to Foreign Office telegram No. 39 February 7th, repeated Saving to Peking.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN LETTER
NO. 7 14 FEB 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

LS BRANCH
8 FEB 1935
INDIA OFFICE

Foreign Office,

July 7, 1935.

The Under-Secretary of State,

India Office.

8—10687 (4)

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F.O. 914 1935

From CHINA.

Decode. Sir A. Cadogan (Peking). February 6th 1935.

D. Wireless. February 6th 1935.

R. 4.7 p.m. February 6th 1935.

No.128. (R).

^^^^^^^^^^^^^^^^

F.2.845/35

My telegram No.119.

According to information furnished to Military Attaché by local Chinese authorities conference took place February 2nd. It ended on the same day by conclusion of a verbal agreement. No written agreement was signed. Agreement provides that Japanese troops shall be withdrawn from area in dispute and that Chinese shall station no troops in that area. Law and order will be maintained there by local militia and police.

In the opinion of the Military Attaché incident may now be considered closed.

Addressed to Foreign Office No.128, repeated to Tokyo Saving, Mukden and Mission.

(N) 492/35

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. - 6 - 7 FEB 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

RECD. POL. DEPT.
6 FEB 1935
INDIA OFFICE

Foreign Office,

July 5, 1935.

The Under-Secretary of State,

India Office.

8—10687 (4)

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F.O. 856 1935

From CHINA.

Decypher. Sir A. Cadogam (Peking), 4th February, 1935.

D. W/T. 4th February, 1935.

R. 3.45 p.m. 4th February, 1935.

No.121.

-o-o-o-o-o-o-o-

Following received from Mukden.

Addressed to Peking No.8, February 1st, repeated to Tokyo Saving and Harbin.

587.

Tokyo telegram No.22 to Foreign Office.

British subject recently returned from Jehol reports very few troops in that district, large detachments from Seventh Division having already been sent towards the Great Wall; he had observed no troop movements but unsubstantiated reports of despatch of reinforcements from other parts of Manchuria have reached us during the past week.

We hear also that conscription of Chinese labour, similar to that reported in my telegram No.77 (No.42 to Tokyo) is once more taking place in villages near Mukden.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
No. - 6 - 7 FEB 1935
FROM SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

REGD. POL. DEPT.
5 FEB 1935
INDIA OFFICE

Foreign Office,
- 4 FEB 1935 , 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

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F.O. 845 1935

From CHINA.

Decode. Sir A. Cadogan. (Peking).
February 2nd. 1935.

D. (by wireless) February 2nd. 1935.

R. 4.0.p.m. February 2nd. 1935.

No. 119. (R).

--------oOo--------

690. My telegram No. 95.

Chinese local authorities informed Military Attaché to this Legation that Sino-Japanese military conference was due to begin at Tatan (West Jehol) on February 2nd. This conference would only deal with military matters and it would appear that general principles of a settlement have already been agreed upon by Japanese and Chinese authorities in Peking. The more important boundary question will apparently not be discussed at this conference.

Addressed to Foreign Office telegram No. 119; repeated to Tokyo and Saving to Mukden and Mission.

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1935

From JAPAN.

Decypher. Sir R. Clive, (Tokyo.) 3rd February, 1935.

D. 9.7 p.m. 4th February, 1935.

R. 9.30 a.m. 4th February, 1935.

No. 35.

****

670. My telegram No. 30.

"Times" correspondent has shown me telegram he is sending to-day. He believes that Japanese are on the whole pleased with the Nanking conversations and the prospect of their leading to the removal of Japanese boycott and eventually de facto recognition of Manchukuo. My impression with which he agrees, is that Minister for Foreign Affairs is hoping to improve relations especially with China and Russia before resumption of naval conversations so as to disarm American criticism of Japanese aggression.

Addressed to Foreign Office, telegram No. 35, February 3rd; repeated to Peking.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. - 5 31 JAN 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

RECD. POL. DEPT.
30 JAN 1935
INDIA OFFICE

Foreign Office,

29 JAN 1935 , 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

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P. Z.
670
1935

From JAPAN.

Decode and decypher. Sir R. Clive, (Tokyo), 29th January, 1935.

D. 6.25 p.m. 29th January, 1935.

R. 11.45 a.m. 29th January, 1935.

Nos. 30 and 31.

-o-o-o-o-o-o-o-o-

"R" begins.

Press is full of speculations as to Minister for Foreign Affairs' policy towards China and the outcome of the conversations between Chiang Kai-shek, Japanese Minister and Military Attaché. Former is said to have proposed meeting and it is suggested here that discussion may inter alia (? group omitted) to delimitation of northern frontier and assist Japanese shipping in conveying troops to Szechuen.

Press also hints at eventual non-aggression pact provided China will turn from America and League of Nations towards Japan.

"R" ends.

Vice Minister for Foreign Affairs was reticent on the subject but expressed anxiety about danger of financial crisis in Shanghai. If this developed he foresaw the danger of spread of communism, civil war and chaos. He understood that Chinese were very bitter against Americans on account of their silver policy and was anxious to know the attitude of His Majesty's Government.

"R" begins.

Addressed to Foreign Office Nos. 30 and 31 of January 29th, repeated to Peking.

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OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. -5 31 JAN 1935
FROM SECRETARY, FOREIGN AND
SECRET DEPT. INDIA OFFICE

Foreign Office,

Jany 26, 1935.

The Under-Secretary of State,

India Office.

MAILS DISPATCH
28 JAN 1935
INDIA OFFICE

8—10687 (4)

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P. Z.
588
1935

From JAPAN.

Decode. Sir R. Clive. (Tokyo).
January 26th. 1935.

D. 1.15.p.m. January 26th. 1935.

R. 9.30.a.m. January 26th. 1935.

No. 25. (R).

-------oOo-----

In reply to interpellations in the Diet yesterday Minister for Foreign Affairs stated that while large defence expenditure was inevitable he would never permit war to break out while he remained in office. Minister for Foreign Affairs stated that he was making every effort to arrive at solution of Sino-Japanese economic questions; he referred again to possibility of establishing neutral zone on Manchukuo-Russian frontier.

Wang Chao-ming is reported by Japanese to have made statement that China was anxious to rely on Japanese rather than European or American support.

460 F.729/35

NO DISTRIBUTION.

Decypher. Sir A. Cadogan (Peking), 26th January, 1935.

D. W/T 26th January, 1935.

R. 3.30 p.m. 26th January, 1935.

No. 90.

IMMEDIATE.

Following received from Commercial Counsellor. Begins.

Addressed to Peking No. 26 of January 25th, repeated to Governor Hongkong, Commercial Secretary Hongkong and Saving to Mission.

I communicated substance of Foreign Office telegram No. 29 to T.V. Soong and afterwards to Minister of Finance this morning.

Both asked me to thank you and expressed appreciation of tone in which message was couched and of sympathetic consideration which His Majesty's Government had clearly given loan proposals. They expressed hope that it might still be possible to frame a proposal which would meet Treasury objections.

T.V. Soong said that he felt more confident even than before that United States Government would give every consideration to China's difficulties in shaping their silver buying policy, though he thought for political reasons it would be difficult for them to give any formal assurances on the point. He did not intend to go abroad at present.

I have also communicated His Majesty's Government's views to Hen.....

ENCLOSURE FOREIGN OFFICE
COVERING LETTER DATED 22 JAN 1935
NO DISTRIBUTION.

P.Z. 496 1935

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DUPLICATE

Cypher telegram to Sir A. Cadogan, (Peking),

Foreign Office, 19th January, 1935, 4.30 p.m.

No.29.

-o-o-o-o-o-o-o-o-o-

IMMEDIATE.

Your telegram No.28 (of 9th January, Chinese silver situation).

The proposal put forward by Soong and Grayburn has been most carefully examined by an interdepartmental committee whose report will be sent to you by mail. The committee felt unable to recommend the Chancellor of the Exchequer to consent to the flotation of the proposed loan, and the Hongkong and Shanghai Bank have now been informed, on the instructions of the Chancellor, that he is unable to consent to the loan because it does not fall under either of the two classes for which consideration was promised in the statement of the 19th July, 1934, namely, (a) sterling issues by a country within the sterling bloc, and (b) issues of which the proceeds are calculated mainly to produce direct benefit to British industry. While this is the ground on which the formal refusal rests, you may wish to explain privately to the Hongkong and Shanghai Bank the reasons for which we have felt unable to regard the proposal put forward as likely to afford any real or lasting remedy to China's monetary difficulties.

(1) These difficulties appear to be due to (a) lack of confidence that the Chinese dollar can remain convertible into silver in the face of the United States silver policy and the consequent flight of capital, and (b) to the adverse balance of payments, both causes leading to desire to export silver and consequent smuggling, hoarding and danger of a run on the banks.

A

A foreign loan would not permanently remove these difficulties and when its proceeds were exhausted the present difficulties would recur while a fresh burden of foreign debt would have been superimposed and the available security of the customs would have been mortgaged for no lasting benefit.

(2) To return to a free silver standard would involve raising the Chinese dollar to at least 1s.8d. with no assurance against further rises. We cannot but feel that the consequent internal deflation and check to Chinese exports must have serious consequences in the absence of any corresponding rise in world prices and Soong's arguments on this point do not convince us. The improvement in the situation of China's balance of trade which he hopes to obtain from increased production and rationalisation must inevitably be a slow process.

(3) In particular we fear that a foreign loan would be regarded both by speculators and by distressed sellers of silver as an opportunity to export silver quickly before the loan is exhausted and would thus lead to an accentuation of the evils which it is desired to avoid.

It is our experience that disappointing results have usually followed, as in our own case in 1931, from attempts to maintain a threatened exchange position by means of foreign loans unless the underlying causes of the exchange weakness have first been removed.

The most obvious remedy would clearly be an understanding with the United States Government in regard to silver purchases. This is foreshadowed in paragraph 1 of your telegram No.28 and we shall be glad to know whether Soong has any progress to report.

The

The present policy of the export tax and equalisation duty on silver appears to us to have much to recommend it, at any rate as a temporary expedient, and we hope it will not be lightly abandoned. We are glad to note that the Hongkong Government have promised co-operation so far as possible.

Finally, you should emphasize our strong desire to assist China in co-operation with the other governments mainly concerned and make it clear that the refusal to consent to the proposed loan is due solely to the belief that it would afford no real or lasting remedy. The refusal does not imply that His Majesty's Government are indifferent to the economic and financial difficulties of China which on the contrary are a matter of grave concern to them.

You should take an early opportunity of conveying orally to T. V. Soong and Minister of Finance the substance of the foregoing.

Repeated to Tokyo No.9, Washington No.9, and Paris No.13. Saving.

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Immediate.

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

31 JAN 1935 INDIA OFFICE

Foreign Office,

30 JAN 1935, 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

ENCLOSURE WEEKLY LETTER NO. -6 -7 FEB 1935 PRIVATE SECRETARY, POLITICAL AND SECRET DEPT. INDIA OFFICE

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From CHINA.

Decode. Sir A. Cadogan, (Peking), 29th January, 1935.

D. W/T. 29th January, 1935.

R. 3.40 p.m. 29th January, 1935.

No.95. (R).

-o-o-o-o-o-o-o-o-o-

My telegram No.91.

Japanese Military Attaché informed Military Attaché that since January 24th there had been no more clashes between Japanese and Chinese troops.

He stated that negotiations between the two sides were now under way but that actual place and date had not yet been settled. He added that negotiations would probably commence January 31st and that General Sung's Chief of Staff would represent Chinese side whilst Japanese would be represented by Brigade Commander on the spot.

Japanese Military Attaché said that he regarded these negotiations as a minor matter which should be settled by superior military authorities amongst themselves; negotiations regarding the general situation in north east Chahar would be opened after the present case had been settled.

Addressed to Foreign Office No.95, repeated to Tokyo and by Saving to Mukden and Mission.

(1)

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN
NO. - 5 31 JAN 1935
SECRET DEPT. INDIA OFFICE

MAILS BRANCH
29 JAN 1935
INDIA OFFICE

Foreign Office,

Jany 28, 1935.

The Under-Secretary of State,

India Office.

8—10687 (4)

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F. Z.
653
1935

From CHINA.

Decode. Sir A. Cadogan, (Peking),
25th January, 1935.

D. W/T. 25th January, 1935.

R. 9.30 p.m. 25th January, 1935.

No.89. (R).

-o-o-o-o-o-o-o-o-o-

Following received from Mukden telegram No.7, January 25th.

Begins -

Addressed to Peking No.7, repeated to Tokyo and Saving to Harbin.

6533574 My telegram No.6.

Military authorities confirm local press report that in retaliation for attack by about 600 Chinese troops (group undec:) Panhungnitan (5 kilometres from Manchurian frontier) on January 23rd Japanese attacked and repulsed the latter. On January 24th Chinese base was bombed by aeroplanes. Japanese casualties were 2 killed and 6 wounded. Hostilities are said to have now ceased.

Ends.

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P. Z.
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1935

From CHINA.

Decode. Sir A. Cadogan (Peking). 26th January, 1935.

D. (By Wireless) 26th January, 1935.

R. 6.30 p.m. 26th January, 1935.

No. 91. (R).

XXXXXXXXXX

My telegram No. 86.

Military Attaché was informed today by local Chinese authorities that there was no change in the situation and that there had been no more clashes between the Japanese and Chinese forces. They added that the Japanese had demanded that negotiations for a settlement should be carried out on the spot with the Japanese present. Up to the present Chinese had not agreed to this request.

Addressed to Foreign Office telegram No. 91, repeated to Tokyo, Mukden and Mission.

(a)

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P.Z. 587 1935

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Immediate.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
- 5 31 JAN 1935
SECRET DEPT. INDIA OFFICE

POLITICAL DEPT.
28 JAN 1935
INDIA OFFICE

Foreign Office,

Jany 26, 1935.

The Under-Secretary of State,

India Office.

8—10687 (4)

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P. Z. 587 1935

From CHINA.

Decode. Sir A. Cadogan. (Peking).
January 25th. 1935.

D. (by wireless) January 25th. 1935.

R. 10.10.p.m. January 25th. 1935.

No. 86. (R).

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My telegram No. 76 and Tokyo's telegram No. 1.

According to statement made by Japanese Military Attaché to local press correspondents and also to Military Attaché to this Legation a clash occurred between Japanese and Chinese troops on January 22nd just east of Tushihkou, one Japanese officer and one man were killed and two Japanese officers and four men were wounded. Japanese Military Attaché stated that troops of General Sung Cheyuan opened fire with a machine gun in the first instance. He added that he had at present no news regarding fighting that occurred on January 23rd which he thought was probably aftermath of events of previous day and that he did not believe either Japanese or Chinese authorities wished to aggravate the situation, although there was always danger that Chinese troops would fail to obey orders to withdraw.

Chinese maintain that there were no regular Chinese troops in disputed area or at Kuyuan or Tushihkou. They state that on January 23rd Japanese bombed and shelled some villages in disputed area. They are awaiting reports from Chinese authorities concerned but they profess indignation that Japanese adopted military measures against an area that was not occupied by regular Chinese troops.

Addressed to Foreign Office telegram No. 86; repeated Saving to Mukden, Tokyo and Mission.

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P. Z. 587 1935

From JAPAN.

Decode and decypher. Sir R. Clive, (Tokyo), 26th January, 1935.

D. 1.20 p.m. 26th January, 1935.

R. 9.30 a.m. 26th January, 1935.

Nos. 22 and 23.

-o-o-o-o-o-o-o-

"R" Begins.

491 My telegram No.15.

Following explanation of incident was given yesterday to Military Attaché.

Some months ago Brigade of Chinese troops had violated frontier and occupied district round Tatan. As a result of negotiations between Kuantun army and Chinese General in command evacuation was to have been completed by 31st December. As Chinese were still there ultimatum was issued January 18th. Chinese troops being quite undisciplined did not obey orders to evacuate. Japanese troops advanced on January 22nd resulting in casualties on both sides Japanese claiming that Chinese fired first. It is now believed incident is over.

"R" ends.

Military Attaché is not certain that above completely explains matters as Kuantun army appear to have made greater preparations than incident warrants, and are ready for more than mere brush with soldier bandits. Although Ministry of War are anxious to minimise the incident and state that Japanese troops have orders not to cross the frontier one inevitably suspects that the army have been again acting independantly.

"R" begins.

Addressed to Foreign Office Nos 22 and 23 of January 26th, repeated to Peking.

(N)

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WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

ENCLOSURE IN WEEKLY LETTER
NO. - 5 31 JAN 1935
FROM SECRETARY, POLITICAL AND
REG. DEPT. INDIA OFFICE

REG. DEPT.
24 JAN 1935
INDIA OFFICE

Foreign Office,

Jany 23, 1935.

The Under-Secretary of State,

India Office.

8—10687 (4)

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Z. 524 1935

From CHINA.

Decode. Sir A. Cadogan (Peking). 22nd January, 1935.

D. (Via W/T.) 22nd January, 1935.

R. 3.30 p.m., 22nd January, 1935.

No. 78. (R).

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Following received from Mukden No. 6 January 19th.

Begins.

Addressed to Peking No. 6; repeated to Tokyo and Saving to Harbin.

Kuantung army announced yesterday that 12th division in Jehol province has been instructed to attack and drive out of Manchuria, troops of Sung Che-bian, Governor of Chahar, who have for some time been in occupation of Tatan district south-west of Dolonor.

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P.Z. 524 1935

COPY

NO DISTRIBUTION

Decode. Sir A. Cadogan (Peking).

22nd January, 1935.

D. (Via W/T.) 22nd January, 1935.

R. 4,00 p.m., 22nd January, 1935.

No. 79. (R).

Mukden telegram No. 6.

According to the latest available maps the area in dispute is a narrow strip of territory east of a line drawn from Kuyuan southwards to the great wall at Tashihkou and thence continuing southwards east of the great wall itself. It is approximately 65 miles in length and 11 miles in breadth. Some time last year the Japanese claimed that this area belonged to Jehol province and therefore to Manchukuo.

Addressed to Foreign Office No. 79 of 22nd January; repeated to Mukden, Mission and Tokyo.

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P.Z. 524 1935

From CHINA.

Decypher. Sir A. Cadogan (Peking), 22nd January, 1935.

D. W/T 22nd January, 1935.

R. 4.00 p.m. 22nd January, 1935.

No. 79A.

Japanese Military Attaché informed Military Attaché to this legation that Chinwangtao military authorities intended to take action against Chinese troops of General Sung Che-yuan unless the latter voluntarily evacuated area under dispute. Japanese Military Attaché added that he did not expect this incident to have any serious developments. I understand he has pressed General Ho..... to order Chinese troops to evacuate disputed area and thus bring about amicable settlement.

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Immediate.

WITH THE COMPLIMENTS

OF THE

UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS.

MAILS BRANCH
22 JAN 1935
INDIA OFFICE

ENCLOSURE IN WEEKLY LETTER
NO. - 4 24 JAN 1935
FROM SECRETARY, POLITICAL AND
SECRET DEPT. INDIA OFFICE

Foreign Office,

22 JAN 1935 , 193 .

The Under-Secretary of State,

India Office.

8—10687 (4)

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F.Z. 492 1935

From JAPAN.

Decode. Sir R. Clive, (Tokyo.) 22nd January, 1935.

D. 12.25 p.m. 22nd January, 1935.

R. 9.30 a.m. 22nd January, 1935.

No. 15 (R)

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